

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

Management Letter for the FY 2011 DHS Financial
Statements and Internal Control over Financial
Reporting Audit





Homeland
Security

FEB 24 2012

Preface

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

This report presents the management letter for DHS' FY 2011 financial statements audit. It contains 93 financial management comments related to internal control deficiencies and makes 176 recommendations. These deficiencies were not required to be reported in the financial statement audit report dated November 11, 2011. The independent public accounting firm KPMG LLP (KPMG) performed the audit of DHS' FY 2011 financial statements and prepared this management letter. Material weaknesses and other significant deficiencies were reported, as required, in KPMG's *Independent Auditors' Report*, dated November 11, 2011, which was included in the FY 2011 DHS *Annual Financial Report*. KPMG is responsible for the attached management letter dated January 31, 2012, and the conclusions expressed in it. We do not express opinions on DHS' financial statements or internal control, or provide conclusions on compliance with laws and regulations.

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

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

Anne L. Richards
Assistant Inspector General for Audits



KPMG LLP
Suite 12000
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January 31, 2012

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

Ladies and Gentlemen:

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

Our *Independent Auditors’ Report* issued on November 11, 2011, describes a limitation on the scope of our audit that prevented us from performing all procedures necessary to express an unqualified opinion on DHS’ FY 2011 financial statements and internal control over financial reporting. In addition, the FY 2011 DHS *Secretary’s Assurance Statement* states that the Department was unable to provide assurance that internal control over financial reporting was operating effectively at September 30, 2011.

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

We also noted certain matters involving internal control and other operational matters that are less severe than a material weakness or a significant deficiency, and consequently are reported separately to the Office of Inspector General (OIG) and DHS management in this letter. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. Sections I through X of this letter provide our observations for your consideration, and have been indexed in the table of Financial Management Comments beginning on the



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following page. The disposition of each internal control deficiency identified during our FY 2011 audit – as either reported in our *Independent Auditors' Report*, or herein – is presented in Appendix A. The status of internal control deficiencies identified during our FY 2010 audit is presented in Appendix B. Our findings related to information technology systems security have been presented in a separate letter to the OIG and the DHS Chief Information Officer.

DHS's written response to our comments and recommendations, presented in Appendix C, has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

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 DHS Office of Inspector General, the U.S. Office of Management and Budget, the U.S. Congress, and the Government Accountability Office, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

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I. CUSTOMS AND BORDER PROTECTION (CBP)

CBP – Financial Management Comment (FMC) 11-01 – Certification of Refund and Drawback Payments (*Notice of Finding and Recommendation (NFR) No. CBP 11-01*)

In the event that the Chief/Supervisor does not certify a payment, the Automated Commercial System (ACS) is defaulted to automatically indicate that the Port Director certified a given payment, without the Port Director's actual certification. CBP has designed and implemented a mitigating control to manually review, verify, and certify payments on the Check Proof Listing; however, this control was not codified in the Standard Operating Procedures (SOPs).

Recommendation:

We recommend that CBP publish the ACS Refund Certification Procedures, which will provide the necessary guidance to the field to ensure all necessary verifications are completed prior to issuance of a payment.

CBP – FMC 11-02 – Insufficient Retention Period for Documents that Support Drawback Claims (*NFR No. CBP 11-02*)

According to the Code of Federal Regulations (CFR), claimants are required to retain documentation related to a drawback claim for three years from the date of payment. However, there are several situations that could extend the life of the drawback claim well beyond those three years. For example, a protest on the underlying consumption entries that are associated with a drawback claim may require an extension, thus the claimant may not be retaining supporting documentation for the extended amount of time. Also, the language of the CFR is ambiguous, "...3 years after payment of such claims..." leaves open to interpretation whether the three years begins on the date of the accelerated payment (if any), or the payment at final liquidation (if any). Based on review of CBP's mission action plan, CBP is continuing to make progress on correcting this condition; however, remediation has not been completed during fiscal year (FY) 2011.

Recommendation:

Although the document retention period for drawback is a statutory requirement set by Congress, we recommend that CBP propose a change to the United States Code; which would require trade support and Congressional approval.

CBP – FMC 11-03 – Automated Commercial System Deficiency over the Accumulation of Accelerated Payments Against a Drawback Bond (*NFR No. CBP 11-03*)

ACS does not properly account for the bond sufficiency of claims that involve a continuous bond. Specifically, the automated control that prevents a claimant from exceeding the bond amount on file is not operating effectively. As a result, CBP will not have sufficient surety against a drawback over claim. Additionally, manual procedures are not in place to ensure the sufficiency of bonds.

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ACS remains the system of record for drawback claims and bonds. In FY 2011, there has not been a program change within ACS or a manual procedure put in place to ensure the sufficiency of bonds.

Recommendation:

We recommend that CBP develop a compensating control that will address this noted system deficiency to ensure the Agency's financial risk exposure is minimized.

CBP – FMC 11-04 – Lack of Controls over Timely Processing of Goods and Services Received
(NFR Nos. CBP 11-10 and 11-10b)

During test work as of March 31, 2011, we reviewed a statistical sample of 271 operating expense type transactions. In 17 transactions, the receipt of goods or services was not recorded in the proper period.

Contracting Officer's Technical Representatives (COTRs) and goods receivers did not consistently enter goods receipt and service entry sheets timely into Systems, Applications, and Products (SAP), CBP's financial reporting system. As a result, at year-end, CBP must estimate accounts payable (A/P) for goods or services received, but not entered into SAP. Although this estimation process is typically accurate, as evidenced by the search for unrecorded liabilities performed by CBP at the beginning of each fiscal year, CBP lacked controls over the process of recording the receipt of goods and services timely throughout the year.

In order to capture goods receipt and service entries not entered timely, CBP used both workflow messages and an on-demand SAP "parked invoice" report available to all receiving officials. A workflow message is sent to the goods receiver when an invoice is input into SAP without a corresponding goods receipt. In addition, if this message is not addressed within five days, a subsequent message is sent to a budget official. CBP's Commercial Accounts Section works the "parked invoice" report weekly and corresponds with program offices to resolve open items. In addition, CBP headquarters program level officers are provided the "parked invoice" report on a monthly basis, which allows them to monitor the items outstanding for their program office. These officials are responsible for distributing the report to their subordinate offices for action and implementing varying levels of review procedures to ensure items are resolved. However, these procedures are not performed until after the receipt of an invoice, which is typically after the receipt of goods or services.

During test work as of July 31, 2011, we reviewed a statistical sample of 243 operating expense type transactions. In 21 transactions, the receipt of goods or services was not recorded in the proper period.

During testwork as of September 30, 2011, we reviewed a statistical sample of 127 operating expense type transactions. In 16 transactions, the receipt of goods or services was not recorded in the proper period.

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Recommendations:

We recommend that CBP:

- Continue outreach efforts that provide guidance to receiving officials through conference call, newsletters, etc.
- Monitor the results of the annual Self Inspection worksheets to determine additional training needs.
- Provide program offices with tools to monitor receiving progress, which include:
 - Monthly “Parked Invoice” Report
 - Weekly review of parked invoices by the National Finance Center (NFC).
- Issue guidance targeted at Contracting Officers (CO) and COTRs that includes the timely receipt, testing and acceptance of supplies and services.
- Develop a strategy to communicate the implementation of the guidance to individuals responsible for the timely receipt of supplies and services.

CBP – FMC 11-05 – Weaknesses in the Monitoring and Review Process over Fines, Penalties, and Forfeiture Cases (NFR No. CBP 11-11)

For two of the eleven selected Ports of Entry, the Fines, Penalties, and Forfeiture (FP&F) Office was unable to provide evidence that the F05, Action Due Report, was generated and reviewed for the weeks selected for testing.

- At one location, the Port was unable to provide copies of the F05 report for one of the two weeks selected for testwork.
- At one location, the Port was unable to provide copies of the F05 report for the two weeks selected for testwork.

Recommendation:

We recommend that CBP utilize the auto distribution mechanism, created by the Fines, Penalties, and Forfeitures Division, that distributes, via email, individualized F05 Action Due Reports on a weekly basis to each respective FP&F officer to review and monitor cases, and track cases nearing the statute of limitations.

CBP – FMC 11-06 – Lack of Implementation of Controls over Determining Classification of Leases (NFR No. CBP 11-12)

CBP does not have a formal requirement to retain documentation to support the evaluation of all leases as operating or capital. Therefore, there is no clear auditable documentation evidencing how CBP determines if a lease should be classified as capital or operating for all lease types.

Recommendations:

We recommend that the Office of Administration (OA) - Asset and Administrative Management Division (AAMD) work with OA - Financial Operations, OA - Procurement, and the NFC in the development of materials, such as the personal property leasehold classification checklist (currently being worked on through the NFC). Additionally, OA - AAMD should work with OA - Financial Operations, OA - Procurement, and the NFC to develop processes and procedures to require documents (such as leasehold agreements, and the classification checklist) to be uploaded into SAP.

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CBP – FMC 11-07 – Weaknesses in the Review of Weekly Entry Edit/Exception Reports (NFR No. CBP 11-13)

During testwork performed at eleven statistically selected Ports of Entry, the following instances of non-compliance with CBP Directive 5610-006A, *Entry Deletion and Entry or Entry Summary Cancellation*, and CBP Directive 5610-004B, *Resolving Certain ACS Exception and Error Reports*, were noted:

- Evidence that the issues on the reports were resolved according to the applicable Directive could not be verified for the following:
 - B06, *ACS List of Rejected/Cancelled Entries Report*, at one port.
 - S21, *Cargo Selectivity Weekly Selectivity Delete Report*, at one port.
- Proper segregation of duties could not be confirmed at one port related to the review of deleted entries on the S21 Report.

Recommendations:

We recommend that CBP:

- Reinforce the importance of the requirements of CBP Directive 5610-004B published September 24, 2009, through written communications and, if necessary, targeted efforts at non-compliant ports to ensure that the B06 report is being reviewed in accordance with established policy.
- Reinforce the importance of the requirements of CBP Directive 5610-006A published June 10, 2011, through written communications and, if necessary, providing targeted training to ensure that the S21 is properly reviewed and verified by the appropriate CBP officials.

CBP – FMC 11-08 – Lack of Evidence of Review of the Drawback Auto/Deemed Liquidation Alert Report (NFR No. CBP 11-14)

During testing at the drawback centers, a sample of thirty Drawback Auto/Deemed Liquidation (D28) Alert Reports was selected across all four centers for review. Eight instances were identified in which evidence of review of the D28 Alert Reports could not be verified.

Recommendations:

We recommend that CBP:

- Update the drawback policy with more specific guidance on how to review and resolve items on the D28 report.
- Reinforce the importance of reviewing the D28 report by issuing written communications to each of the drawback centers.

CBP – FMC 11-09 – Deficiencies in the Public Financial Disclosure Reporting Process (NFR No. CBP 11-17)

During testwork over a sample of 45 employees who filed SF-278, Executive Branch Personnel Public Financial Disclosure Reports, in FY 2011, the following deficiencies were identified:

- Three incumbent employees did not file SF-278s by the June 15, 2011, extended deadline or the employee's further extension, if granted.
- One new employee did not file the SF-278 within 30 days of their date of hire.

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- Evidence of completion for one employee's SF-278 was unable to be provided.
- Nineteen of the SF-278s were not reviewed within 60 days of the date of filing.

Recommendation:

We recommend that CBP ensures all employees who need access to Financial Disclosure Management (FDM) are granted proper access prior to the FY 2012 filing date. In addition, ensure that FDM is properly implemented to facilitate timely review of the SF-278s.

CBP – FMC 11-10 – Deficiencies in the Performance Management Program (NFR No. CBP 11-18)

During testwork over a sample of 45 Senior Executive Service (SES) performance plans, the following deficiency was identified:

- One employee did not complete an initial or a progress review.

During testwork over a sample of 45 non-SES supervisory employee performance and appraisal plans, the following deficiencies were identified:

- Evidence of completion for one employee's performance and appraisal plan was not received at the time of testwork.
- Evidence of completion for two employees' goal setting sections of the performance and appraisal plans were not received at the time of testwork.
- One employee's mid-year review meeting did not occur and a reasonable explanation was not provided.
- One employee did not complete meetings at goal setting or mid-year due to an extended detail.
- One employee did not complete a mid-year review due to an extended detail.
- One employee did not complete goal setting timely due to an extended detail.

Recommendations:

We recommend that CBP:

- Issue a reminder to managers and employees to follow current policies and procedures when conducting the performance management process.
- Review current policies and develop new policies, as necessary, over the performance management process, including procedures for employees on extended detail.

CBP – FMC 11-11 – Weaknesses in Controls over Automated Journal Entries (NFR No. CBP 11-19)

In FY 2011, CBP developed SOPs for submitting SAP Change Requests and reviewing SAP automated general ledger postings. However, the SOPs are not adequately designed to determine whether all types of posting changes are successfully implemented.

Additionally, at the time of testing, evidence of review and approval of the SAP posting logic change made in FY 2011 was not available.

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Recommendation:

We recommend that CBP revise its operating procedures to expand documentation requirements confirming the posting logic changes were correctly made to SAP along with a standard approval process.

CBP – FMC 11-12 – Weaknesses in Controls over the Bond Sufficiency Review Process (NFR No. CBP 11-20)

During testwork performed over the bond sufficiency process, one insufficient bond was identified on the BNLNOV2 Bond Sufficiency Report for the month of July 2011, which remained “valid” in ACS and an insufficient bond letter was never sent to the importer.

Recommendation:

We recommend that the CBP Bond Team compare importer numbers instead of importer names when checking for duplications.

CBP – FMC 11-13 – Incorrect Use of CBP Overtime Scheduling System Codes (NFR No. CBP 11-21)

During testing performed over a sample of 33 CBP Officer timecards, the CBP Overtime Scheduling System Codes (COSS) codes used by three CBP Officers did not correspond to the duties performed by the CBP Officer on the selected day.

Recommendations:

We recommend that CBP:

- Review current policies to determine effectiveness and revise policies as necessary.
- Increase communication and training to ensure employees have an appropriate understanding of the use of COSS codes in relationship to their responsibilities.
- Ensure proper codes are in place when employees change roles.

CBP – FMC 11-14 – Lack of Formal Process for Determining Required Supervisory Reviews (NFR No. CBP 11-22)

CBP lacks a formal process to identify all drawback claims requiring supervisory review. Specifically, there is no formal report or list of all claims requiring supervisory review and, therefore, supervisors must rely on Drawback Specialists to properly flag claims requiring review. Additionally, CBP cannot determine if all required supervisory reviews have been completed.

Recommendation:

We recommend that CBP develop procedures to ensure completeness over supervisory reviews until a fully automated system is in place to process claims electronically.

CBP – FMC 11-15 – Deficiencies over Monitoring of Ethics Requirements (NFR No. CBP 11-23)

During testwork over a sample of 45 new employees in FY 2011, evidence of completion for ethics training related to 17 employees was not provided in a timely manner; therefore, we were unable to perform testwork over these sample items.

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During testwork over a sample of 45 public filer and covered employees, evidence of completion for ethics training related to one employee was not provided in a timely manner; therefore, we were unable to perform testwork over this sample item.

Recommendations:

We recommend that CBP:

- Develop a centralized tracking system to ensure employees are complying with ethics requirements.
- Develop a document retention policy to ensure evidence of completion of ethics training is readily available.

CBP – FMC 11-16 – Incomplete Undelivered Orders (UDOs) Quarterly Review (NFR No. CBP 11-24)

During testing performed over the June quarterly UDO certifications, the following deficiencies were identified:

- Two certifications were not submitted to the NFC to signify a review was completed and no follow-up was performed.
- Two certifications were submitted after the 21 day period.
- Eight certifications incorrectly referenced the directive used to perform the review and/or did not reflect the correct review period per Directive 1220-011D, *Reviews of Unliquidated Obligations and Open Goods/Services Receiving Records*.
- Three certifications were submitted prior to the end of the third quarter without an explanation as to why the early submission was appropriate.

Recommendation:

We recommend that CBP coordinate with program offices to ensure timely and accurate submission of the quarterly UDO certifications.

CBP – FMC 11-17 - Weaknesses in the Trade Compliance Measurement Program (NFR No. CBP 11-26)

During testing performed at 11 statistically selected Ports of Entry, improvements over the Trade Compliance Measurement (TCM) program were noted. However, the following conditions related to the TCM program were identified:

- Two ports were unable to provide evidence of review of the Automated Commercial Environment (ACE) reports (ESM-7010, ESM-7011, or ESM-10001) on a monthly basis as required by CBP Directive 3550-074C, *Uniform Input of Entry Summary Review Findings Using the ACE Validation Activity*.
- Inconsistent use of data queries and reports by the TCM Coordinators to monitor TCM. TCM Coordinators stated that the ACE reporting functionality is not operating effectively. Instances were noted when the ACE reports listed entries with a Validation Activity (VA) that had already been closed and/or the reports would not list TCM hits with open VAs. Therefore, the TCM Coordinators did not have a standard functioning method of monitoring TCM.

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- Lack of understanding concerning the use of the ACE Inbox, which hosts the TCM hits. Ports that generate more than 100 hits were not aware of the ACE Inbox functionality allowing users to view additional TCM hits needing attention.
- Headquarters provides the ports with a monthly database, which provides an effective tool to analyze and monitor TCM hits. However, the Headquarters Database for the FY 2011 TCM hits was not made available to the Ports until February 2011.
- CBP Directive 3550-074C does not provide sufficient information to the TCM Coordinators on how to appropriately review the ACE reports and Headquarters Database. Details regarding the review, annotations, and maintenance of the reports are not provided.

Recommendations:

We recommend that CBP:

- Continue the distribution of the monthly TCM database and excel spreadsheets for proper oversight and monitoring of the TCM program.
- Ensure ports are appropriately reviewing the ACE reports in accordance with CBP Directive 3550-074C and issue new and/or updated guidance as needed.
- Utilize quarterly conference calls to communicate with the ports current issues needing attention and resolutions already in place.

CBP – FMC 11-18 – Untimely De-obligation of UDOs and Monitoring of Period of Performance (NFR No. CBP 11-28)

During our testwork over CBP's UDO balance as of August 31, 2011, and September 30, 2011, we selected statistical samples totaling 455 UDOs and noted weaknesses in CBP's monitoring of these obligations. Specifically, we noted the following:

- Eleven UDOs were no longer valid and had not been de-obligated, or marked for de-obligation, totaling \$1.2 million. CBP did not reconcile these UDOs to supporting documentation (e.g., certifications) and reasonably assure that only valid obligations remained open.
- For three purchase order agreements, the period of performance had expired prior to the execution of a modification, for up to a period of four months.
- For two purchase order agreements, the period of performance expired (in September 2010 and April 2011) and it was confirmed that more goods or services were expected to be received on these agreements. However, no modification has been executed on these agreements as of September 30, 2011, to extend the period of performance (POP).
- For one interagency agreement and one purchase order, goods and/or services were accepted prior to the execution of the contract. Thus, the period of performance was back-dated in order to accept the invoices for the good/services.

Recommendations:

We recommend that CBP:

- Follow-up with offices cited on the report as not being in compliance with CBP Directive 1220-011D. Emphasize better communication between the COTR with the program office and the CO.
- Improve monitoring of the POP, especially the end date, on active contract actions to avoid elapse of time and ensure SAP is updated with the current POP end date.

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- Improve monitoring of the POP, especially the end date, on active contract actions to avoid delays in awarding the renewal contract actions and ensure SAP is updated with the current POP end date.

CBP – FMC 11-19 – Weaknesses in CBP’s Payroll Reconciliation Process (NFR No. CBP 11-30)

CBP did not perform a proper reconciliation between the U.S. Department of Agriculture (USDA) Abstract and the Governmentwide Accounting and Reporting Program (GWA) Account Statement. On the USDA Abstract to GWA Account Statement Comparison Worksheet, CBP populates amounts from the USDA Abstract in one column and amounts from the GWA Account Statement in a separate column for comparison. CBP properly utilized the USDA Abstract to populate amounts in the USDA Abstract column. However, when populating amounts in the GWA Account Statement column, CBP erroneously utilized the USDA Abstract instead of the GWA Statement. Therefore, CBP did not compare the USDA Abstract to the GWA Account Statement. CBP confirmed that the condition existed for the entire FY 2011.

Recommendation:

We recommend that CBP include the GWA reports in the monthly payroll reconciliation to ensure no reconciling items exist.

CBP – FMC 11-20 – Insufficient Review of Manual Journal Entries (NFR No. CBP 11-31)

Insufficient review was performed over certain Adjusting Journal Entries (AJE) and related supporting documentation, and as a result errors were not identified during the AJE review:

- The AJE to record the year-end Refunds Payable Accrual improperly credited Standard General Ledger (SGL) 2990, Other Liabilities without Related Budgetary Obligations, rather than crediting SGL 2190, Other Liabilities with Related Budgetary Obligations. Furthermore, a mathematical error existed in the calculation of the adjustment causing the accrual to be understated by approximately \$1.9 million.
- The AJE to record the fourth quarter imputed pension costs excluded the payroll information for pay periods 13 through 18, which resulted in the imputed cost being understated by approximately \$35 million.

Recommendations:

We recommend that CBP:

- Revise the SOPs to include a new validation of the prior-year Refunds Payable calculations which will impact current year calculations. This validation will be reviewed by the first and second level AJE reviewers. In addition, the work-papers for this AJE will be revised to include identity of the correct debit/credit general ledger accounts.
- For the pension calculation, CBP has added work-paper support and a spreadsheet validation to avoid this error in the future.

CBP – FMC 11-21 – Deficiencies in the Review of the Department of Labor Chargeback Report (NFR No. CBP 11-32)

CBP's Human Resource Management (HRM) – Workers' Compensation Program Office (WCPO) does not perform a review of the Department of Labor Detailed Chargeback Report (chargeback) on a quarterly basis. Rather, a review of significant payments is performed every 24 months.

Recommendations:

We recommend that CBP:

- Finalize the amended CBP Directive No. 51810-005, *Workers' Compensation Program*, which includes verbiage that provides the HRM Benefits, Medical and Worklife Division (BM&W) the leverage to develop CBP's processes for monitoring of the chargeback to ensure accuracy.
- Continue the efforts of the BM&W in developing a process to review and distribute the chargeback report on a quarterly basis. A senior advisor will lead the efforts as the initial contact lead to interface and achieve collaboration and buy-in for the quarterly review of CBP's chargeback.
- Develop SOPs and conduct training on how to read the chargeback and conduct the chargeback review.

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II. FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)

FEMA – FMC 11-01 – Deficiencies in Development and Application of Policies Related to the Non-Grant, Non-Mission Assignment, Non-System-Generated Accounts Payable Accrual (NFR No. 11-02)

Our review of the accounts payable accrual model methodology as of December 31, 2010, revealed that an accrual is not generated for the following fund codes and Budget Object Codes (BOC), and the Intergovernmental Accrual Process does not specifically address the accrual process for the following funds:

- Fund codes 79, 87-89, 8C, 9B, 9C (all related to limited and no-year funds for the Chemical Stockpile Emergency Preparedness Program).
- Fund code H7 (related to State and Local Programs Fund - Public Safety Interoperable Communications).
- BOC 2503 (Delegation of Authority – Disaster Unemployment Assistance) and 2504 (Delegation of Authority – Crisis Counseling Assistance).

Recommendation:

We recommend that FEMA incorporate an assessment of these BOCs and funds into the quarterly accounts payable accrual process and document the assessment.

FEMA – FMC 11-02 – Inability to Closeout Assistance to Firefighter Grants (NFR No. 11-04)

During our testwork performed over Assistance to Firefighter Grants (AFG), we noted that system closeout issues continue to exist in FY 2011. Per discussion with Grant Programs Directorate personnel, the system problems with the implementation of the SF-425 continued throughout most of FY 2011. Although a manual process was implemented in June 2011, at that time, only grant awards from FY 2002 through FY 2004 were being closed out manually. Continued issues prevented closeouts related to grant awards from FY 2005 through FY 2009. (The award process for AFG takes place during the fourth quarter of the fiscal year; as such, FY 2010 AFG do not require closeout in the current fiscal year.)

Recommendations:

We recommend that FEMA:

- Implement planned modifications to the AFG system that are designed to enable the closeout of AFG awards from FY 2007 – FY 2010.
- Utilize the established manual closeout process for AFG awards prior to FY 2007 and for subsequent awards until the system capability exists to complete closeouts.

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FEMA – FMC 11-03 – Deficiencies in Development of Mission Assignment Policies and Procedures (NFR No. FEMA 11-05)

Under SOP Number 2600-007, *Financial Reporting of Mission Assignments* dated March 17, 2011, FEMA requires mission assignment-related UDO balances to be validated annually as of June 30th of each year. In the event an Other Federal Agency (OFA) is non-responsive to the validation request, FEMA notifies the OFA that the closeout process will be initiated and funds will be de-obligated unless sufficient supporting documentation is received. FEMA, however, does not designate a timeline as to when de-obligation will take place to ensure the mission assignment (MA) UDO balance is validated or closed out prior to year-end. The policy calls for UDOs to be reviewed but not validated at other times throughout the year.

Recommendation:

We recommend that FEMA designate, as part of its annual validation process, a timeline as to when de-obligation will take place when the OFA is non-responsive to ensure the MA UDO balance is validated or closed out prior to year-end.

FEMA – FMC 11-04 – Lack of Certain Documentation Related to Compliance with the Improper Payments Elimination and Recovery Act of 2010 (NFR No. FEMA 11-08)

In FY 2011, we reviewed FEMA's risk assessment approach and test plan for each of the programs that were determined to be of significant risk for improper payments. Based on our review, we determined that FEMA used a multi-year sampling approach for the Public Assistance Grant Program, the Homeland Security Grant Program, and the Transit Security Grant Program given the large size of the programs. Because this approach was used, FEMA was unable to extrapolate the sample results over the entire population and could not provide results within the required 2.5% precision level. For this approach to be considered compliant with the Improper Payments Elimination and Recovery Act of 2010 and Office of Management and Budget (OMB) Circular No. A-123, FEMA must obtain approval from OMB. FEMA did not obtain official written approval until September 23, 2011, after testing had begun.

The plan approved on September 23, 2011 is a multi-year testing plan that is effective for the Homeland Security Grant Program and the Transit Security Grant Program through FY 2013 and for the Public Assistance Grant Program through FY 2014.

Recommendation:

No recommendation is necessary as FEMA management implemented corrective action during the fiscal year.

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FEMA – FMC 11-05 – Inability to Link Systems to Significant Grant Programs (NFR No. FEMA 11-11)

We requested that FEMA provide an analysis to demonstrate the amount of UDOs flowing through each grant system during FY 2011. We asked that the analysis include Catalog of Federal Domestic Assistance Number, Grant Program, Responsible Directorate, Award System, Monitoring System, Grant Identifier, Obligation System, Obligation Amount, Payment System, Payment Amount, and the UDO reconciled balance.

We noted that a spreadsheet was created based on our request; however, FEMA was unable to identify the appropriate monitoring system for each grant program. Additionally, FEMA does not maintain a database that links grant systems to significant grant programs to facilitate the assessment of system-based controls over obligations and payments related to these programs.

Recommendations:

We recommend that FEMA:

- Develop and implement a monitoring control to ensure that the currently developed spreadsheet is updated timely when changes occur.
- Dedicate the resources to implement a process to monitor which grant programs are flowing through which grant systems in order to facilitate the assessment of system-based controls over obligations and payments related to these programs.

FEMA – FMC 11-06 – Deficiencies in the Preparation and Review of the Government Accountability Office (GAO) Financial Audit Manual 2010 – Checklist for Federal Accounting (NFR No. FEMA 11-12)

Upon independent review of FEMA’s initial GAO Financial Audit Manual 2010 – Checklist for Federal Accounting (Checklist) as of March 31, 2011, we determined FEMA did not properly complete all questions in the Checklist, as follows:

- Responses to 13 questions were not consistent with the accounting policies and operations currently implemented at FEMA.
- Various explanations provided in the Checklist required more information per the Checklist instructions.
- Four questions were answered when the index indicated “N/A,” and per the Checklist instructions, only items considered applicable in the index should be answered.

Although the Checklist was reviewed for completeness, accuracy, and validity and approved by FEMA management in accordance with the FY 2011 DHS Office of Financial Management (OFM) *Component Requirements Guide for Financial Reporting*, inconsistencies in the Checklist noted were not identified by the review.

Recommendation:

We recommend that FEMA develop and implement SOPs over the annual preparation and review of the Checklist.

FEMA – FMC 11-07 – Inaccuracy of Claims’ Loss Reserves at Selected Insurance Companies that Participate in FEMA’s National Flood Insurance Program (NFIP) (NFR No. FEMA 11-14)

We selected nine insurance companies and tested a sample of 65 loss reserves reported by these companies as of March 31, 2011. During this testing, we noted the following errors:

- For five sample items, the loss reserve recorded in the insurance company NFIP claims system was not updated appropriately to reflect additional adjustor reports and/or claim payments, causing the reserves to be misstated as of March 31, 2011.
- For three sample items, the claim was not closed in a timely manner which overstated the reserve balance as of March 31, 2011.
- For one sample item, the claim was closed without payment and then reopened in order to pay adjustor fees. However, the claim was not re-closed after the fees were paid, which in turn overstated reserves.

Additionally, we selected nine insurance companies and tested a sample of 65 loss reserves reported by these companies as of August 31, 2011. During this testing, we noted the following errors:

- For one sample item, the reserve was not updated to accurately reflect receipt of the preliminary report and the payment of an advance, which caused the reserve to be understated as of August 31, 2011.
- For one sample item, the loss reserve recorded in the insurance company NFIP claims system was not updated appropriately to reflect the final report, causing the reserves to be overstated as of August 31, 2011.

Recommendations:

We recommend that FEMA:

- Follow-up with each of the insurance companies with exception to determine that appropriate corrective action has been implemented to address the exceptions noted.
- Provide increased oversight to ensure the specific and consistent documentation of the established loss reserve and subsequent adjustment to the loss reserve per claim at the insurance companies participating in the NFIP is maintained and that current loss reserve information is communicated to the third-party service provider timely.

FEMA – FMC 11-08 – Internal Control Deficiencies over Claims Paid at Selected Insurance Companies that Participate in FEMA’s NFIP (NFR No. FEMA 11-15)

We selected nine insurance companies and tested a sample of 270 claim payments across those companies covering the period October 1, 2010 to March 31, 2011. During this testing, we noted the following errors:

- For two sample items, the claim payment was not recorded in the correct fiscal year.
- For eight sample items, the loss reserve related to the claim transaction was not updated properly to reflect claim payments or additional adjustor reports, causing reserves to be misstated.
- For one sample item, the deductible was not properly applied to a contents claim.
- For two sample items, the claim was not properly closed after the policy was closed and rewritten.

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- For one sample item, the claim payment made to the insured did not match the total claim payment on the final report, causing the insured to be overpaid.

Additionally, we tested a sample of 135 claim payments across the nine insurance companies covering the period April 1, 2011 to June 30, 2011. During this testing, we noted the following errors:

- For three sample items, the claim payment made to the insured did not match the total claim payment on the final report, causing the insured party to be overpaid or underpaid.

Recommendations:

We recommend that FEMA:

- Follow-up with each of the insurance companies with exceptions to determine whether appropriate corrective actions have been implemented to address the exceptions noted.
- Provide increased oversight to insurance companies participating in the NFIP to ensure claims files are being processed and reviewed in accordance with NFIP guidelines before approval and issuance of claim payments and to ensure the specific and consistent establishment and reporting of loss reserves and subsequent adjustments to the loss reserves.

FEMA – FMC 11-09 – Deficiencies in the Monthly Spend Plan Reconciliation Preparation Process (NFR No. FEMA 11-17)

Based on our FY 2011 walkthrough procedures performed over the Monthly Spend Plan Reconciliation preparation process, we noted the following deficiencies in the design:

- A lack of oversight exists over the contractors who extract the actual spending data from the general ledger. It is uncertain whether they are pulling the correct information as the reviewer does not perform necessary oversight of the procedures taken by the contractors to extract the data from the general ledger.
- The Budget Manual, which was issued during FY 2011, describes that when the review of the reconciliation is performed, the Office of the Chief Financial Officer (OCFO) and the FEMA program offices address the issue of how the funds are allocated. We noted that the Budget Manual does not indicate the procedures that need to be taken to reconcile the actual committed, obligated, and expended amounts to the appropriate amounts per the general ledger.
- No clear documentation evidences the Monthly Spend Plan Reconciliations or the review thereof. Management was not able to provide support for reconciliations performed, or any evidence of their final review other than the posting of them on the FEMA intranet.

Recommendations:

We recommend that FEMA revise standard operating procedures, including appropriate internal controls, over the preparation and review of the Monthly Spend Plan Reconciliation to ensure that:

- Actions performed by contractors are properly monitored.
- A consistent process is established to reconcile information in the Monthly Spend Plan Reconciliation to the general ledger.
- Proper review of the Monthly Spend Plan Reconciliation is performed prior to its posting on the FEMA intranet.

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FEMA – FMC 11-10 – Deficiencies Identified in the General Ledger Chart of Accounts and Transaction Codes (NFR No. FEMA 11-18)

Based on our review of FEMA's FY 2011 general ledger chart of accounts as of June 30, 2011, we noted six accounts that were included in the general ledger chart of accounts and were active, but they were not included in the 2011 United States Government Standard General Ledger (USSGL) chart of accounts.

Based on our testwork performed over a sample of 32 transaction code (T-code) numbers and 248 total T-code transactions as of June 30, 2011, we noted that 9 of the 248 total T-code transactions selected for testwork were not in compliance with the USSGL.

Recommendations:

We recommend that FEMA:

- Perform additional research to determine how to de-activate the identified accounts through the general ledger. If prior year accounts are necessary to post beginning balances, develop and implement procedures to ensure accounts are deactivated timely once beginning balances are recorded.
- Develop a comprehensive T-code crosswalk to determine whether general ledger T-codes are in compliance with the USSGL and why some T-codes deviate from the USSGL.

FEMA – FMC 11-11 – Improvements Needed in Review and Recording of Year-end Mission Assignment Accrual (NFR No. FEMA 11-19)

FEMA attempted to perform a validation of the estimated June 30, 2011 MA accounts payable accrual to determine the accuracy and reliability of the estimate. However, during our review of the validation, we noted that the validation was not effective as FEMA compared all reimbursement requests received in the fourth quarter of FY 2011 to the accrual balance as of June 30, 2011. For comparison purposes, the reimbursement requests received in the fourth quarter of FY 2011 used to validate the accrual should only include the requests received for services and/or expenses incurred prior to July 1, 2011.

In addition, FEMA does not review and analyze the accrual by OFA prior to recording the accrual to ensure that validity and reasonableness of each accrual.

Recommendations:

We recommend that FEMA:

- Develop and implement procedures to compare the MA accounts payable accrual estimates to the actual expenses incurred, communicate with OFAs on discrepancies noted to make estimation improvements in the future, and reassess the process to develop the estimate as necessary. The verification and validation should be documented and properly reviewed.
- Thoroughly review MA accounts payable accrual supporting documentation for reasonableness prior to recording amounts reported by OFAs, and exercise timely communication with OFAs on any discrepancies noted to prevent an intragovernmental reconciliation problem.

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FEMA – FMC 11-12 – Improvements Needed in Management’s Review of Grant Data and Automated Reconciliations in Grant Accrual Models (NFR No. FEMA 11-22)

Our review of Legacy FEMA’s implemented grant accrual process (generally for disaster and non-preparedness grants) revealed the following deficiencies within the process as of June 30, 2011:

- The legacy FEMA grant accrual model tab did not properly include PIN D3512 in the calculation of the accrual. As a result, the legacy FEMA grant accrual advance was understated by \$1,159,221. As the exclusion was not identified in the review of the inputs and outputs of the model, the controls were not operating effectively.
- A discrepancy between the Ending Cash on Hand (ECOH) reported in the accrual model data and the ECOH per the SF-272 SmartLink report was identified. A one-cell shift in the ECOH column in the accrual model data caused this discrepancy. Although we determined the ECOH column does not feed into any model inputs or outputs, and there was no substantial effect related to the shift of the column, a control-based exception was recognized for insufficient review and approval of the inputs and outputs of the model.
- Variances between estimated and actual advances and liabilities that exceed the acceptable variance range (AVR) thresholds established by FEMA policies were not adequately addressed. The advance variances at December 31, 2010 and March 31, 2011 were \$35 million and \$30.7 million respectively. Additionally, liability variances at September 30, 2010, December 31, 2010, and March 31, 2011, were \$143.4 million, \$91.5 million, and \$64.6 million respectively. These discrepancies fell outside the target error rate for the advance and liability estimates for the legacy FEMA grant accrual. Furthermore, FEMA noted that management review of the AVR is only completed annually, and it is a process that continues to be under review.

Our review of Legacy FEMA’s implemented grant accrual process revealed the following deficiencies within the process as of September 30, 2011:

- A discrepancy between the ECOH reported in the accrual model data and the ECOH per the SF-272 SmartLink report was identified, similar to the issue noted as of June 30, 2011.
- Variances between estimated and actual advances and liabilities that exceed the AVR thresholds were not adequately addressed. The advance variance at June 30, 2011 was \$46.7 million, which exceeded the AVR.

Our review of FEMA’s Grants and Training (G&T) grant accrual process revealed the following deficiency within the process as of June 30, 2011:

- The Journal Voucher (JV) to record the liability allocation for fund code T8 was initially recorded for the wrong amount of \$72.6 million. The entry was subsequently reversed and FEMA then posted the correct balance in a new JV. As the review and approval of the original JV was not properly performed, the control was not operating effectively.

Our review of FEMA’s G&T grant accrual process revealed the following deficiencies within the process as of September 30, 2011:

- The September 30, 2011 returned a \$3.5 million advance and \$50.9 million liability for fund T6. As fund T6 (State and Local Programs) was cancelled at September 30, 2011, FEMA reallocated the advance and liability from fund T6 to funds T0, T7, T8, T9, and E0. We

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determined that the reallocation of advances (\$294,604) and liabilities (\$4.3 million) related to fund T6 (State and Local Programs) to fund E0 (Emergency Management Performance Grants) was not proper as the funds are not used for the same purpose. As the reallocation was not properly reviewed, the control was not operating effectively.

At June 30, 2011 and September 30, 2011, FEMA recorded all grant related payables in USSGL account 2110. Per the USSGL T-code B402 which states "Record USSGL account 2190 for grants payable", FEMA is not in compliance with USSGL.

Recommendations:

We recommend that FEMA:

- Conduct training to ensure that the individuals responsible for preparing and reviewing the grant accrual clearly understand their roles and responsibilities for the preparation and review of the grant accruals.
- Review and conduct follow-up related to unusual advance and liabilities balances reported by grantees.
- Review and resolve large variances between estimated and actual advances and liabilities.
- Conduct training to ensure grantees understand the SF-425 form and complete it properly.
- Record grant related payables in SGL account 2190.

FEMA – FMC 11-13 – Issues Identified in Journal Voucher (JV) Testwork (NFR No. FEMA 11-23)

Journal Voucher Population Completeness as of March 31, 2011:

To determine the completeness of the JV population as of March 31, 2011, we obtained a roll-forward of all financial activity from October 1, 2010 (period 00) to March 31, 2011 (period 06) from FEMA.

Based on this testwork, we noted two of thirteen of March 31, 2011 Treasury Information Executive Repository (TIER) adjustments were not fully researched prior to submitting them into the DHS TIER repository.

Journal Voucher Population Completeness as of June 30, 2011:

To determine the completeness of the JV population as of June 30, 2011 we obtained a roll-forward of all financial activity from March 31, 2011 (period 06) to June 30, 2011 (period 09) from FEMA.

Based on this testwork, we noted two of fifteen June 30, 2011 TIER adjustments were not fully researched prior to submitting them into the DHS TIER repository.

Journal Voucher Population Completeness as of September 30, 2011:

To determine the completeness of the JV population as of September 30, 2011, we obtained a roll-forward of all financial activity from June 30, 2011 (period 09) to September 30, 2011 (period 12) from FEMA.

Based on this testwork, we noted three of seven September 30, 2011 TIER adjustments were not fully researched prior to submitting them into the DHS TIER repository.

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Journal Voucher Testing as of March 31, 2011:

Based on our JV dual purpose testwork as of March 31, 2011, we noted that 1 of 52 JV sample items did not reflect the underlying events and transactions.

Based on our control testwork as of March 31, 2011, we noted that 13 of 52 JV were corrections of previous JVs that should not have been necessary if the original entry was properly reviewed and approved to determine if the attribute, fiscal year, and general ledger accounts were proper and agreed from the hard copy Microsoft Excel template to the general ledger entry.

Journal Voucher Testing as of June 30, 2011:

Based on our JV dual purpose testwork as of June 30, 2011, we noted that for 2 of 38 JV sample items the original entry was posted in December 2010 to the incorrect budget fiscal year. We determined the correcting entry was not posted until June 2011, which we do not consider to be timely corrections.

Based on our control testwork as of June 30, 2011, we noted that 3 of 38 JV were corrections of previous JVs that should not have been necessary if the original entry was properly reviewed and approved to determine if the attribute, fiscal year, and general ledger accounts were proper and agreed from the hard copy Microsoft Excel template to the general ledger entry.

Journal Voucher Testing as of September 30, 2011:

Based on our JV dual purpose testwork as of September 30, 2011, we noted that 1 of 54 JV sample items did not reflect the underlying events and transactions.

Based on our control testwork as of September 30, 2011, we note 3 of 54 JV were corrections of previous JVs that should not have been necessary if the original entry was properly reviewed and approved to determine if the attribute, fiscal year, and general ledger accounts were proper and agreed from the hard copy Microsoft Excel template to the general ledger entry.

Federal/Intra-agency/Non-Federal (F/I/N) Attributes:

To address the F/I/N attributes within the general ledger for purposes of the TIER submissions throughout FY 2011, FEMA adjusted intra-agency ('I') amounts and recorded them in selected G&T funds in TIER. For example, we observed that FEMA calculated the adjustment amounts based on the difference between USSGL elimination pairs (e.g., USSGL accounts 1410 – Advances and Prepayments and 2310 – Liability for Advances and Prepayments), increased/decreased the intra-agency amount for one side of the elimination pair, and applied the adjustment to a selected G&T fund. No documentation existed to support the reasonableness of these adjustments.

Temporary Housing Unit (THU) Transactions:

FEMA recorded several entries throughout the year based on improper guidance provided by DHS OFM. FEMA reversed correct entries and posted improper entries based on DHS OFM guidance, which lead to an abnormally large number of JVs relating to THUs. FEMA corrected these entries by year-end.

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Recommendations:

We recommend that FEMA:

- Dedicate sufficient resources to ensure JVs are thoroughly researched, reviewed, and approved prior to entering them in the general ledger or adjusting the TIER files.
- Dedicate sufficient resources to ensure that all F/I/N attributes are reviewed and corrected in a timely manner.
- Work with DHS OFM to develop a formal policy/procedure to resolve disagreements with DHS OFM relating to proper accounting treatments.

FEMA – FMC 11-14 – Lack of Supporting Documentation for Prompt Payment Sample Item (NFR No. FEMA 11-24)

Based on our testwork performed over a sample of 85 payments made during FY 2011, we noted one Prompt Payment Act exception. For this transaction, the goods were received on the same day as the invoice. However, FEMA did not make the vendor payment within the required time period (within 30 days of the receipt of the invoice) or pay the required interest penalty for this late payment.

Recommendations:

We recommend that FEMA:

- Develop a monitoring control to ensure adherence to existing prompt payment policies and procedures for all applicable payment activities.
- Provide additional training to ensure invoices are entered into the general ledger timely and the payment due date is entered correctly.

FEMA – FMC 11-15 – Deficiencies in Verification and Collection of Performance Measurement Data for the Annual Financial Report's (AFR) Management's Discussion and Analysis (NFR No. FEMA 11-26)

In the FY 2011 DHS AFR, information for four performance measurements was provided from FEMA's program offices. We noted the following conditions for two of these performance measurements:

- "Percent of time that critical communications for response operations are established within 12 hours" - A complete population of the supporting documentation could not be provided. From the few items that were provided, we noted that the supporting documentation could not be used to objectively verify the performance measurement percentage in the AFR.
- "Percent of orders for required life-sustaining commodities (meals, water, tarps, plastic sheeting, cots, blankets, and generators) and key operational resources delivered by the agreed upon date" - The incorrect performance measurement percentage (96%) was submitted to the Office of Policy and Program Analysis, which was the number submitted for the AFR. This incorrect percentage did not match the underlying data provided by the program, which supported a percentage of 93%.

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Recommendations:

We recommend that FEMA:

- Develop and implement a process to ensure that performance measures can be objectively tracked, calculated, and verified.
- Develop and implement a review process to validate the data and the performance measurement calculations prior to submission to DHS.

FEMA – FMC 11-16 – Deficiencies in the Legacy FEMA Grant Accrual Methodology (NFR No. FEMA 11-27)

During the preparation of the June 30, 2011 legacy FEMA grant accrual, FEMA determined it appropriate to exclude BOC 4310, Educational Stipends, from the grant accrual model data extraction. However, FEMA did not properly update its SOP to note the exclusion of BOC 4130 as of June 30, 2011. A new SOP was put in place in September 2011.

Recommendation:

No recommendation is necessary as FEMA remediated the condition by September 30, 2011.

FEMA – FMC 11-17 – Deficiencies over the NFIP Treasury Information Executive Repository JV Adjustments (NFR No. FEMA 11-28)

In conjunction with our testwork of FEMA's JVs to record NFIP activity as of September 30, 2011, and review of the FY 2011 DHS AFR, we noted the following:

- FEMA did not include USSGL account 1190, in the amount of \$33.1 million, in the calculation for the budgetary entry to reconcile budgetary cash to proprietary cash. The exclusion of this account in the calculation is inappropriate, as account 1190 should be included to ensure budgetary cash balances with proprietary cash.
- FEMA calculated its budget entries related to contractor-submitted expenses based on proprietary entries which are estimated by the third party service provider. FEMA used the entries to post the correct budgetary entries to the general ledger. Budgetary entries are automatically calculated and recorded for all other expenses not submitted by a contractor. FEMA was unable to explain a \$682.7 million difference between proprietary expenses and budgetary expenses.

Recommendations:

We recommend that FEMA:

- Review, update and reissue SOPs for the recording of NFIP financial statement information into the FEMA general ledger to include USSGL account 1190 in the calculation for the budgetary entry to reconcile budgetary cash to proprietary cash.
- Develop, document, and implement a method to identify differences between proprietary and budgetary accounts in 70X4236 and assess if the differences identified are reasonable.

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FEMA – FMC 11-18 – Lack of Communication Regarding the Existence of the DHS Office of Inspector General (OIG) Fraud Hotline (*NFR No. FEMA 11-29*)

In order to test the operating effectiveness of the DHS OIG Hotline at FEMA, we inquired of two personnel within the Financial Statements and Reporting Branch and one person in the Risk Management Branch under the OCFO. None of them were aware of the existence of the hotline or its purpose.

Recommendation:

We recommend that FEMA management improve communications to their employees regarding the existence of the DHS OIG Hotline, its importance, and the situations in which the hotline should be used.

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III. FEDERAL LAW ENFORCEMENT TRAINING CENTER (FLETC)

FLETC – FMC 11-01 – Capitalization of Property, Plant, and Equipment (PP&E) (NFR No. FLETC 11-01)

During testwork over PP&E as of June 30, 2011 and September 30, 2011, KPMG noted the following issues:

- One instance where costs related to a construction in progress (CIP) project had not been capitalized from the inception of the project which resulted in the project being capitalized untimely in FY 2011. This resulted in CIP and cumulative results of operations being understated in FY 2010.
- One instance where a flag pavilion addition was not recorded as a capitalized asset until six months after the completion of the project. Once capitalized, FLETC applied the correct in-service date so depreciation was correctly applied.
- One instance where software under development was put into use in September 2010 though the software was not reclassified from software under development to internal use software (IUS) until September 2011, one year later. This resulted in SGL 1830, *Internal Use Software*, being understated in FY 2010, SGL 1832, *Software In Development*, being overstated in FY 2010, and SGL 1839, *Accumulated Depreciation- Software*, being understated in FY 2010. Additionally, when the software was reclassified, the in-service date was recorded as February 1, 2011, and it should have been September 2010. This resulted in depreciation expense and accumulated depreciation being understated in FY 2011.
- When the A/P Accrual was calculated, the portion related to PP&E was not reclassified from SGL 6100, *Expenses*, to SGL 1720, *Construction in Progress*. This resulted in an overstatement of Expenses and an understatement of CIP as of September 30, 2011.

Recommendations:

We recommend that the FLETC Finance Division (FIN):

- Implement more aggressive follow-up for submission of capitalization reports from program/project managers upon project completion, contract closeout or building occupancy, whichever comes first. If a capitalization report is not received within ten days, FIN prepares an interim preliminary capitalization report to effect the reclassification of CIP into the general asset account.
- Emphasize to COTRs, end-users and program staff the importance of timely input of receiving reports and submission of invoices for payment in financial reporting accuracy and operating efficiencies related to bulk purchases.
- Continue to perform manual reviews monthly as an additional check on bulk purchase field operational procedures and identify necessary updates to FLETC standard operating procedures related to bulk purchase policies and capitalization threshold.
- Collaborate with the Software In Development team, the Student Administration and Scheduling System (SASS) Program Managers, to establish a communication process whereby FIN will be alerted as software modules/releases are put into production.
- Strengthen monitoring and review of accrued expenses related to construction projects for reclassification into CIP at fiscal year-end by adding the tasks as a key item in the FIN Year-end Closeout Checklist.

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IV. UNITED STATES CITIZENSHIP AND IMMIGRATION SERVICES (USCIS)

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

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

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

Recommendations:

We recommend that USCIS OCFO, OA, OIT, and the Office of Contracting coordinate to develop policies and procedures that ensure PP&E acquisitions are processed in a standardized method and include the following:

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

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

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

Recommendation:

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

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

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

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

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

Recommendation:

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

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

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

Recommendation:

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

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

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

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

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

Recommendation:

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

V. IMMIGRATION AND CUSTOMS ENFORCEMENT (ICE)

ICE – FMC 11-01 – Failure to Record Payroll Accrual (NFR No. ICE 11-02)

We noted that ICE did not adhere to its policy to accrue for payroll expenses that it had incurred at the end of the first and second quarters in FY 2011.

Recommendation:

We recommend that ICE adhere to its policy and record an accrual for payroll expenses at the end of each quarter.

ICE – FMC 11-02 – General Journal Entry Not Approved by Office of Financial Management Director (NFR No. ICE 11-03)

Per ICE policy, the ICE OFM Director is required to review and approve general journal (GJ) entries with debits and credits in excess of \$300 million and sign the GJ cover sheet as evidence of his review. However, during testwork over GJs, we noted that ICE OFM processed one GJ transaction with debits and credits in excess of \$300 million that was not approved by the Director of OFM.

Recommendation:

We recommend that ICE provide additional training to employees to ensure complete understanding of the requirements of the GJ Procedures SOP.

ICE – FMC 11-03 – Inadequate Internal Controls over Tracking and Removing Accumulated Depreciation in Sunflower Asset Management System (NFR No. ICE 11-04)

We selected a sample of five personal property items with abnormal balances as of June 30, 2011 and noted that the assets had negative net book values due to either (1) depreciation in SAMS in excess of the asset's value or (2) failure to write-off accumulated depreciation in SAMS upon disposal of the asset.

Recommendation:

We recommend that the ICE OFM and Office of Asset Administration (OAA) create and utilize existing detective tools to identify data anomalies within SAMS to specifically address depreciation anomalies.

ICE – FMC 11-04 – Process for Identifying Contract-type Obligations for Contract Closeout is Delayed (NFR No. ICE 11-05)

We selected a sample of eight UDOs from a population of UDOs that had no disbursement activity from June 30, 2010 to June 30, 2011 and noted that three of the eight aged UDOs were valid, but not active as of June 30, 2011. These UDOs needed to be reviewed by Program Offices before the contract closeout process for de-obligation may begin; however, Office of Acquisitions (OAQ) indicated that the Program Offices would not complete this review until FY 2012.

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Recommendations:

We recommend that ICE OFM with support from OAQ, Office of Facilities Administration (OFA), and ICE program offices:

- Continue to emphasize timely review of open obligations, consistent with its current business processes, on a priority basis based on amounts/materiality and available resources.
- Continue to emphasize timely monitoring and enforce existing policies and procedures for review and closeout of UDO balances with expired periods of performance.

ICE – FMC 11-05 – Inadequate Internal Controls over Tracking Leasehold Improvement Projects (NFR No. ICE 11-06)

In the beginning of FY 2010, ICE OFM conducted a review of software and leasehold improvements (LHIs) and detected errors in the balances and subsequently recorded adjustments to the LHIs in process and software in development balances as a result of these errors. In FY 2011, as management continued to improve its process and controls, ICE recorded additional adjustments to the LHI in process balances for costs that were incurred in prior fiscal years.

Recommendations:

We recommend that ICE OFM and OFA:

- Utilize existing controls as well as establish additional controls to ensure capital projects are identified at the time of obligation.
- Perform recurring data reviews and tests to ensure established controls are operating effectively.

ICE – FMC 11-06 – Untimely Recording of Capitalized Asset Disposals (NFR No. ICE 11-07)

During testwork over capitalized asset disposals as of June 30, 2011, we noted that one of the five capitalized vehicle disposals selected for testwork was disposed of in FY 2010, but was not recorded as a disposal in SAMS or FFMS until FY 2011.

Recommendations:

We recommend that ICE OAA, OFM, and DHS Project Management Office (PMO) for SAMS:

- Meet to implement policies and procedures to ensure that disposals are removed from the general ledger in a timely manner.
- Evaluate the discrepancy and formulate an action plan to eliminate the inconsistency between actual disposal and when the disposal is recorded.

ICE – FMC 11-07 – Reimbursable Agreements Not Timely Approved by Budget Officer (NFR No. ICE 11-08)

During testwork over reimbursable agreements as of June 30, 2011, we noted that three reimbursable agreements had not been timely approved by a Budget Officer.

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Recommendations:

We recommend that ICE:

- Follow the procedures outlined in the ICE Budget Execution Handbook, which includes guidance stating that Office of Budget and Program Performance (OBPP) will sign all reimbursable agreements that are accompanied by a complete package within five business days of receipt.
- Plan to submit reimbursable agreement packages to OBPP 30 calendar days prior to the start of the agreement's period of performance to ensure timely completion and signature prior to expenses being incurred.

ICE – FMC 11-08 – Contracting Officer has Access to Approve Invoices in Federal Financial Management System (FFMS) (NFR No. ICE 11-10)

We reviewed a listing of COs and their access rights within FFMS in order to determine whether appropriate segregation of duties was enforced between those COs who were able to enter into agreements and those COs who process payments and noted that 1 out of 71 COs had inappropriate access rights within FFMS. The contracting officer had authority to approve agreements and to input receiving tickets in the PM030 screen within FFMS. The contract approval and payment processes should be separate.

Recommendations:

We noted that ICE OAQ implemented “read or view-only” FFMS access for employees with CO responsibilities.

We recommend that ICE:

- OAQ Mission Support Team (MST) continue to monitor and approve FFMS access.
- Ensure all warranted COs request access to FFMS through the OAQ MST.
- Continue to follow the semi-annual validation process in which the listing of warranted COs is sent to the FFMS Help Desk for access validation.

ICE – FMC 11-09 – Incorrect Federal Employees Group Life Insurance Deduction (NFR No. ICE 11-11)

During testwork over compliance with laws and regulations, we noted that ICE did not accurately deduct an employee's Federal Employees' Group Life Insurance (FEGLI) deduction for one sample item out of thirty-two. We noted that the employee elected FEGLI coverage of “Basic – 5X additional.” At the time of the election, the employee worked at FEMA and the election was coded as “Basic – 1X.” When the employee transferred to ICE, ICE Human Resources personnel did not correct the deduction amount despite having the information on which to make the change.

Recommendation:

We recommend that ICE Office of Human Capital implement procedures to review and confirm benefits information for employees who transfer into the agency.

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ICE – FMC 11-10 – Untimely Review of Office of Government Ethics 278 Forms (NFR No. ICE 11-12)

We selected a sample of 15 SF-278 financial disclosure forms filed by ICE employees and noted that seven items had not been certified within 60 days of receipt as required by CFR 5 § 2634.605. We noted that all SF-278s were ultimately certified, but outside the 60 day window.

Recommendation:

We recommend that ICE continue to work with filers, supervisors, the DHS Ethics Office, and the DHS Financial Disclosure Management (FDM) system contractor to achieve improved implementation of the FDM system. Due to technical issues, we noted that one supervisor of twenty filers was not added to FDM until mid-August, delaying supervisory review and certification.

ICE – FMC 11-11 – Insufficient Documentation for Federal Employees' Compensation Act Claims (NFR No. ICE 11-13)

We noted that ICE Office of Human Capital (OHC) does not have formal policies and procedures in place to document the Federal Employees' Compensation Act (FECA) claims process. In FY 2011, ICE OHC personnel operated under a draft directive.

When performing testwork over 45 FECA claims, we noted the following:

- For three claims, the Federal Employee's Notice of Traumatic Injury and Claim for Continuation of Pay/Compensation (CA-1) forms were not available for review.
- For five claims, the employee did not completely fill out the CA-1 form and left fields blank.
- For 12 claims, the claimant's pay grade and step per the CA-1 form did not agree to the leave and earnings statement (LES).
- For 11 claims, the claimants are no longer ICE employees and as a result we were unable to review LES's for the purpose of our audit.
- For two claims, the employee did not include their grade/step information on the CA-1 form.
- For one claim, the Social Security number (SSN) per the CA-1 form did not match the LES and the employee did not include their grade/step information on the CA-1 form.
- For one claim, the employee did not authorize their CA-1 form with their signature.
- For one claim, there was no SSN on the CA-1 form and the employee's grade/step per the CA-1 form did not agree to the LES.

Recommendation:

We recommend that ICE OHC fully implement the draft directive related to FECA and conduct a periodic review of FECA claims in order to assess the accuracy of the claim information and to confirm ICE's ownership of the claim.

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ICE – FMC 11-12 – Inadequate Controls over New Hire Ethics Briefings (NFR No. ICE 11-15)

During testwork over a sample of 15 new hires from October 1, 2010 through June 30, 2011, we noted that one individual was recorded as not having completed the required new hire ethics briefing. At the time of interim testwork, the individual was within 90 days of his hire date and we noted no exception. However, at year-end, we performed follow-up procedures and the ICE Ethics Office confirmed that the individual did not complete the required training until October 5, 2011, over 90 days from his initial hire date.

Recommendation:

We recommend that ICE continue to follow existing policies and procedures related to ethics briefings for newly hired employees.

ICE – FMC 11-13 – Subject to Availability of Funding Agreements not Obligated in FFMS at Outset of Agreement (NFR No. ICE 11-16)

We noted that Enforcement and Removal Operations (ERO) did not record a dollar value for obligations in FFMS under subject to availability of funding (SAF) agreements prior to incurring costs under the agreements. ERO occasionally incurs prompt payment interest because of the timing lag between when it receives an invoice and when it has funds available in FFMS to pay the invoice.

We noted that due to the prior year NFR, ICE OAQ, OCFO, and ERO have implemented guidelines to reduce the number of SAF clauses; however, these offices continue to draft new policies and procedures to address SAF clauses and do not expect full corrective action to be complete until September 30, 2012.

Recommendations:

We recommend that ICE:

- ERO stagger the period of performance for contracts to more closely align funding needs with apportionments.
- Implement strengthened monitoring by OCFO in order to prioritize funding for mission critical contracts.
- Develop and implement procedures for identifying and rejecting invoices for services that are not duly authorized.

ICE – FMC 11-14 – Ineffective Internal Controls over Leave Audit Process (NFR No. ICE 11-17)

During the walkthrough for the leave audit process, we noted that there was a 40% decrease in the number of leave errors in the past year. However, approximately 1,000 leave errors still existed as of May 7, 2011. We noted that differences in the leave balances between the NFC records and WebTA reports were not being researched and resolved timely.

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Recommendation:

We recommend that ICE OHC:

- Ensure that all employees responsible for timekeeping are appropriately trained in all aspects of the time and attendance system.
- Analyze error reports to identify any common causes related to errors in the timekeeping process.
- Review and report to the Program Office on timekeeping errors to ensure correction no later than two pay periods from the date of official notification.
- Implement *Timekeeping and Attendance Directive* that establishes responsibilities for all employees involved in the timekeeping process and sets internal controls for leave errors.

ICE – FMC 11-15 – ICE Does Not Accrue Capitalized Costs Incurred at Year-end for Software and Leasehold Improvement Projects (NFR No. ICE 11-18)

We noted the following irregularities and misstatements in PP&E related to the failure to completely and accurately accrue for capitalized costs:

- ICE OFM recorded accruals for LHIs and LHIs in process for Management Directive (MGT) in the fourth quarter of FY 2011, but then mistakenly reversed the accrual.
- ICE OFM accrued for its own leasehold improvement costs at September 30, 2011, but not its IUS projects.
- ICE OFM does not have policies and procedures in place to accrue for capitalized costs at year-end for its customer agencies.

Recommendations:

We recommend that ICE OFM:

- Continue to work closely with customers within ICE and at serviced components to clarify data needs and definitions and to adhere to data call deadlines.
- Develop more comprehensive policies and procedures surrounding the accrual of capitalized PP&E costs to ensure consistency and minimize the chance for errors.

ICE – FMC 11-16 – Inadequate Internal Controls over Tracking of IUS Projects (NFR No. ICE 11-19)

We noted that ICE failed to record capitalizable costs for IUS development as they were incurred in FY 2011. During year-end testwork, we identified \$724,086 of expenses to services performed for the Sharepoint project in the second quarter and \$739,436 of expenses related to services performed in the third quarter being added to IUS as a fourth quarter addition.

Recommendation:

We recommend that ICE develop and implement comprehensive policies and procedures to assist in the appropriate tracking and recording of IUS projects. These policies and procedures will ensure that all pertinent ICE offices work collaboratively to resolve the control areas identified.

VI. NATIONAL PROTECTION AND PROGRAMS DIRECTORATE (NPPD)

NPPD – FMC 11-01 – Inadequate Internal Controls over Reporting of Government Furnished Equipment Asset Disposals (NFR No. NPPD 11-01)

During testwork over a sample of five items from the capitalized asset disposal population at June 30, 2011, we noted that one asset was disposed of in FY 2010, but was not recorded as a disposal in FFMS until FY 2011.

Recommendation:

We recommend that NPPD follow existing policies and procedures related to the reporting of fixed assets and fixed asset disposals. We also recommend that NPPD continue to increase communications in this regard with its financial reporting provider, ICE.

NPPD – FMC 11-02 – Subject to Availability of Funding Agreements Not Obligated in FFMS at Outset of Agreement (NFR No. NPPD 11-02)

We noted that the Federal Protective Services (FPS) did not record a dollar value for obligations in FFMS for SAF agreements prior to incurring costs on the agreements.

We also noted that it is FPS's policy to obligate \$0 in FFMS for an agreement while costs are incurred. Additional funding is added to the obligation after the receipt of an invoice if the funding in FFMS is not sufficient to pay the invoice.

Recommendations:

We recommend that NPPD:

- Obtain specific, written representations from internal legal sources and external regulatory sources to support the practice if NPPD continues to utilize this practice.
- Consider implementing procedures to record obligations as they occur while minimizing the potential impact (e.g., potential Anti-deficiency Act violations) to customer organizations.

NPPD – FMC 11-03 – Inadequate Internal Controls over Reporting of IUS Projects (NFR No. NPPD 11-04)

We noted that NPPD performed a review of IUS and identified two programs that create IUS but did not report any costs as capitalized as of September 30, 2011. NPPD reviewed expenses on all contracts on the two programs and noted that the capitalized costs and non-capitalized costs could not be separated and identified based on the supporting documentation available at the time of the review and therefore developed a methodology for determining the effect on the balance sheet. We noted that NPPD asset management failed to report capitalized costs for IUS projects in a timely manner for inclusion in the general ledger.

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Recommendations:

We recommend that NPPD:

- Work with sub-components and programs to ensure proper tracking and reporting for all IUS.
- Work with the OAQ and Office of Procurement Operations to ensure each contract includes the proper property reporting clause and to add/modify contract line item numbers/appropriate accounting strings specifically for property.

NPPD – FMC 11-04 – Inadequate Internal Controls over Reporting of Equipment (NFR No. NPPD 11-05)

When performing testwork over PP&E additions for the fourth quarter of FY 2011, we noted one instance where NPPD recorded capitalized costs related to government furnished equipment (GFE) in an untimely manner and one instance where NPPD recorded capitalized costs related to GFE at the incorrect amount.

Recommendations:

We recommend that NPPD – US-Visitor and Immigrant Status Indicator Technology’s Asset Management Team:

- Review its GFE and personal property to ensure all assets are properly accounted for in the asset management system.
- Revise management policies and procedures for both GFE and government held personal property to ensure internal controls are established and implemented to properly account for property.

NPPD – FMC 11-05 – Untimely Reporting of Leasehold Improvements (NFR No. NPPD 11-06)

When performing testwork over PP&E additions for the fourth quarter of FY 2011, we noted that two items that were classified as LHIs were not capitalized in a timely manner as the invoices included expenses incurred in prior years.

Recommendation:

We recommend that NPPD continue to work with ICE OFM to improve policies and procedures to ensure that capital projects are identified at the time of obligation, including LHIs.

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VII. SCIENCE AND TECHNOLOGY DIRECTORATE (S&T)

S&T – FMC 11-01 – Inadequate Internal Controls over Reporting of Construction in Progress and Buildings (NFR No. S&T 11-01)

During testwork over a sample of five property additions as of June 30, 2011, we noted that two sample items were for construction services received prior to FY 2011. We noted that CIP costs for the National Bio Agro Defense Facility in FY 2007 – 2009 were not capitalized until FY 2011 and CIP costs incurred in FY 2010 were not capitalized until receipt of invoices in FY 2011.

Recommendations:

We recommend that S&T:

- Implement policies and procedures to accurately and timely capture and record capitalized construction in progress costs.
- Develop policies and procedures for the accrual of capitalized construction in progress costs.

S&T – FMC 11-02 – Untimely De-obligation of UDOs (NFR No. S&T 11-02)

We selected a statistical sample of 25 items from the population of aged UDOs as of June 30, 2011, and noted that eight items were invalid, and should have been de-obligated. We noted that these obligations were approved for de-obligation in prior fiscal years but ~~had~~ S&T had not yet completed the review or de-obligation process.

Recommendations:

We recommend that S&T:

- Perform a targeted review for “stale” obligations.
- Continue to utilize quarterly verification and validation procedures for UDOs.

S&T – FMC 11-03 – Inadequate Controls over New Hire Ethics Briefings (NFR No. S&T 11-03)

We selected a sample of ten new hires from S&T from October 1, 2010 through June 30, 2011, and noted that a sign-in sheet for attendance at a new hire ethics orientation could not be produced for one individual. We noted that the individual was employed at an out of town location, but noted that employees at remote locations are subject to the training requirements, but can fulfill the training electronically or by reviewing printed materials. We noted that the employee did not fulfill any of the requirements.

Recommendation:

We recommend that S&T continue to utilize and enforce policies related to ethics briefings for newly hired employees.

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S&T – FMC 11-04 – Insufficient Internal Controls to Ensure Timely Reporting of IUS in Development and Personal Property (NFR No. S&T 11-04)

During testwork over capitalized property additions for the fourth quarter of FY 2011, we noted that S&T capitalized \$355,142 of costs related to services received in the third quarter of FY 2011 for the First Responders Communities of Practice Beta version project and Biodefense Knowledge Management System.

Recommendations:

We recommend that S&T:

- Implement policies and procedures to accurately and timely capture and record capitalized software costs.
- Develop policies and procedures for the accrual of capitalized software costs.

VIII. TRANSPORTATION SECURITY ADMINISTRATION (TSA)

TSA – FMC 11-01 – Employee Record Management and Compliance with Human Resource Related Laws (NFR No. TSA 11-01)

We noted that TSA has ineffective processes and controls to ensure that employee benefits are properly supported by available documentation within the employee personnel files.

Specifically we noted the following conditions related to a lack of documentation:

- One instance in which the SF-2817 (FEGLI) form was not included in the electronic Official Personnel Folder (eOPF).
- Five instances in which the SF-2809 (Federal Employees' Health Benefits (FEHB)), evidencing the non-election or waiver of benefits, was not included in the eOPF.
- Two instances in which the SF-2809 (FEHB), evidencing the employees' current benefits election, form was not included in the eOPF.
- Six instances in which the current Thrift Savings Plan (TSP) election form was not included in the eOPF.

Recommendation:

We recommend that TSA continue to monitor the service provider to verify that all of the supporting documentation for benefit and TSP elections are updated in the eOPF in a timely manner for both new hires and employee changes. This ongoing review will ensure the service provider is following the federal guidelines pertaining to recordkeeping.

TSA – FMC 11-02 – Accrued Payroll Controls (NFR No. TSA 11-02)

We noted that policies and procedures over the initiation and approval of personnel actions (SF-52s) at individual airports are not sufficient in distinguishing the applicable roles of the initiators and approvers of personnel actions in HRAccess. KPMG noted an individual could be assigned both the role of an initiator and an approver of personnel actions in the system and perform both actions on a single personnel action request thus not effectively applying segregation of duties.

Specifically we noted the following:

- Five instances in our testwork in which the initiator and approver of the action were the same individual.

We also noted that the quality assurance (QA) review of personnel actions processed in the EmpowHR system is not operating effectively.

Specifically we noted the following:

- Two instances where the approver was the same as the processor.
- Two instances in which the QA reviewers were not assigned the role to perform the review in EmpowHR.

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Recommendations:

We recommend that TSA:

- Modify its personnel system to not allow the initiator and approver to be the same individual.
- Monitor the service provider's QA review of personnel actions to ensure it is operating effectively.

TSA – FMC 11-03 – Ineffective Controls over the Time and Attendance Process (NFR No. TSA 11-04)

We noted that TSA lacks defined policies and procedures to ensure timely review and approval of leave requests.

Controls over the review and approval of timesheets are not operating effectively. Specifically, we noted:

- Lack of evidence of timely supervisor review and approval of timesheets and additional supporting documentation (eight instances). We noted that overtime and compensatory time hours were approved prior to submission to NFC for processing.
 - 4 of 104 overtime requests were not approved prior to the employee working the overtime hours.
 - 4 of 104 instances of Compensatory Time hours worked prior to the supervisor approving the hours.
- Lack of evidence of supervisor review and approval of timesheet and additional supporting documentation (one instance):
 - 1 of 104 instances in which evidence of approval for overtime hours worked was not available.
- Untimely approval of timesheet by supervisor (one instance):
 - 1 of 104 instances where the timesheet was signed 4 days prior to the pay period end date.

Recommendation:

We recommend that TSA continue to provide training to improve the awareness of effective control of the time and attendance processes. This training should be accomplished by initial training of personnel newly assigned to time and attendance duties as well as refresher training for those employees performing these tasks. The refresher training should be available both formally, through the Online Learning Center, and informally, through broadcasts and monthly agency-wide conference calls.

TSA – FMC 11-04 – GAO Checklist (NFR No. TSA 11-08)

We noted that the GAO checklist review was not designed or operating effectively as of March 31, 2011.

Specifically, we noted:

- Two instances where TSA indicated “Y,” or “yes,” for the existence of information in the financial statements when the accounting policy or information was not disclosed or applicable to the March 31, 2011 AFR. Specifically we noted:

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- TSA answered “yes” that operating materials and supplies are valued at historical cost when TSA has adopted the purchase method to account for operating materials and supplies.
- TSA answered “yes” to questions related to liabilities associated with social insurance (specifically related to unemployment insurance) when TSA does not operate social insurance programs.
- Two instances where TSA indicated “Y,” or “yes,” for the existence of information in the financial statements when the accounting policy or information was not disclosed or applicable to the March 31, 2011 AFR. We noted no additional explanatory language was included to clarify to the user that the response of yes is due to TSA having a policy to account for the item in the event a transaction were to occur. Specifically we noted:
 - TSA answered “yes” to questions related to the accounting treatment for capital leases when in the March 31, 2011 AFR TSA did not include a liability or disclosure for capital leases.
 - TSA answered “yes” to questions related to the accounting treatment of transfers of multi-use heritage assets when the March 31, 2011 disclosure noted TSA classified all heritage assets as collection type assets.
- One instance where TSA indicated that a policy is not applicable when the accounting policy was in fact applicable to the agency. Specifically we noted:
 - TSA answered “no” to questions related to donated property, indicating that the agency did not have donated property. As a result of procedures performed during our FY 2011 site visits KPMG noted the Lackland K-9 facility has 10 buses and 2 trains that were donated to the agency.

Recommendation:

We recommend that TSA establish a more formal and thorough GAO 2010 Checklist review process that includes input from each of the OFM branches and other TSA offices that are responsible for properly accounting for TSA’s asset, liability, revenue, and expense transactions.

TSA – FMC 11-05 – UDO Process (*NFR No. TSA 11-10*)

We noted that TSA lacks a policy to ensure COTR status file used for the verification and validation review is complete. Specifically, there is no policy requiring a review of the exclusion file to ensure obligations are properly included in the verification and validation review.

Recommendation:

We recommend that TSA Funds Control Program Support Branch (FCPSB) should no longer use the COTR Status File as a resource to determine validity of a UDO. The information utilized to determine the status of a contract should be limited to information obtained from the Core Accounting System, the Contract Closeout spreadsheet and previously reviewed verification and validation files, and research compiled by FCPSB.

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TSA – FMC 11-06 – Review of Journal Entries (NFR No. TSA 11-12)

We noted that controls related to journal entry reviews were not fully effective during the current year. Specifically, we identified two sample items that were recorded to correct entries that were reviewed, approved, and posted in error in prior months.

Recommendations:

We recommend that TSA:

- Ensure that journal entry preparers and reviewers take yearly journal entry training.
- Ensure that the journal entry training provided covers journal entry preparation, lessons learned from the previous year, and requirements for journal entry review and approval.

TSA – FMC 11-07 – Accounts Payable Process (NFR No. TSA 11-14)

During our walkthrough of the A/P process at TSA, we noted a lack of controls in place to evidence COTR review of Intra- Governmental Payment and Collection (IPAC) payments.

Recommendations:

We recommend that TSA:

- Document the review process for IPACs, perform a gap analysis, and implement improvements to ensure timely IPAC payment review and approval. Specifically:
 - For the recurring IPAC payment type agreements (majority of IPAC transactions):
 - Document the “As-Is” process and controls related to the creation and management of agreements that result in recurring payments.
 - Determine if controls for recurring payments are appropriately designed related to:
 - Establishing the agreement.
 - Establishing the recurring payment.
 - Stopping payments as a result of performance issues.
 - Automatically stopping payments at the end of the agreed-upon payment period.
 - Verifying IPAC costs are in line with agreement terms.
 - For the non-recurring IPAC payment type agreements:
 - Document the “As-Is” process and controls related to the creation and management of agreements that result in non-recurring payments.
 - Determine if controls for non-recurring payments are appropriately designed related to:
 - Establishing the agreement.
 - Managing payments, including obtaining timely COTR approval.
 - Managing final agreement reconciliation, payment and closeout.
 - Perform a gap analysis and develop a Change Action Plan related to the needed improvements.
- Document authorization received from program offices for IPACs cleared in coordination with the Accounting Branch.

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TSA – FMC 11-08 – Travel Authorization Approval (NFR No. TSA 11-18)

As a result of our testwork to ensure that travel authorizations and vouchers are properly approved, coded, and recorded into the FedTraveler System through June 30, 2011, KPMG noted the following:

- TSA lacks policies and procedures that explicitly address variations to the standard travel document approval process. In addition, TSA lacks documented policies and procedures related to multi-trip travel authorizations including defined travel authorization thresholds review and approval in which to verify the appropriateness of authorized dollars. Specifically:
 - In one instance, the Federal Air Marshall Service (FAMS) voucher had evidence of only one level of approval.
 - In two instances in which multi-trip travel authorizations were approved, the approval chain did not detail the specific trip authorization that was approved. Further, the original authorization for one of the multi-trip authorizations was for \$1,000,000.
- Controls over the travel authorization and voucher process were not operating effectively. Specifically:
 - In one instance, a travel authorization was created outside of TSA's policies and procedures in place (FY 2011 *Travel Waiver Request for International Personnel*) related to the Office of Global Strategies.
 - In two instances, the sample (one authorization and one voucher) was posted by TSA in error.
 - In two instances, TSA posted an unsupported voucher against an authorization and omitted an approved voucher from proper posting against an authorization.

Recommendations:

We recommend TSA:

- Publish a travel handbook that accompanies Management Directive 1000.6 in order to address the FAMS approval process and other deviations from standard policy.
- Implement plans to monitor large dollar travel authorizations on a monthly basis that include following up with the program offices to ensure appropriate approvals of travel dollars.
- Implement a requirement that approvers and certifiers take annual training to reinforce their understanding of travel policy and their roles in the approval process over travel authorizations and travel vouchers.

TSA – FMC 11-09 – UDOs Documentation (NFR No. TSA 11-22)

We noted that controls were not fully effective to ensure contract management policies, procedures, and controls are being properly adhered to. KPMG noted the following related to our June 30, 2011 and September 30, 2011 UDO balance testwork:

- Four instances where the sample amount did not agree to the supporting documentation.
- A number of instances related to documentation where the information entered into the general ledger (GL) did not agree to the supporting documentation. Specifically:
 - Nine instances where the sample detail (e.g. invoice number, contract number, object class, vendor type) did not agree to the supporting documentation.
- A number of instances where transactions were not recorded in the GL timely. Specifically:

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- Two instances where based on the POP ending date, the contract was not de-obligated timely.
- Seven instances where monthly rental charges were incurred prior to the execution of a signed obligation.
- Three instances where the sample was not recorded in the GL timely.
- One instance where an obligation was posted to the GL prior to execution.
- One instance where the obligation did not have a valid POP at September 30, 2011.

Recommendations:

We recommend that TSA:

- Strengthen policies and controls to ensure accurate undelivered order balances.
- Work with U.S. Coast Guard Finance Center (FINCEN) to document the root cause and systemic corrections associated with purchase order GL sync issues.
- OFM should work with FINCEN to obtain a monthly listing of transactions that have been corrected and their financial impact to the GL and the purchase order modules.

TSA – FMC 11-10 – Non-Compliance with the *Debt Collection Improvement Act of 1996* (NFR No. TSA 11-24)

In FY 2010, TSA was not in compliance with the *Debt Collection Improvement Act of 1996* (DCIA) and we issued NFR TSA-10-06. During FY 2010, TSA developed an internal standard operating procedure manual (ISOP) to ensure compliance with DCIA. Although an ISOP has been adopted and approved, the ISOP is not properly designed to ensure full compliance with the provisions of DCIA for FY 2011. The ISOP does not address when TSA should send a demand letter to a debtor. Further, the ISOP indicates that referrals are only made on a quarterly basis.

Specifically, we noted the following instances of non-compliance:

- For 12 of 74 sample items selected, demand letters were not sent to the debtor in a timely fashion.
- For five of 74 sample items selected, TSA did not refer eligible, outstanding debt to Treasury within 180 days.

Recommendations:

We recommend that TSA:

- Continue efforts to ensure full compliance with the DCIA.
- Office of Revenue should work with the TSA Accounting Branch and Financial Policy and Travel Branch to ensure that the DCIA SOP is properly edited to address when TSA sends a demand letter to debtors.
- Office of Revenue should ensure that the SOP is properly edited to ensure Treasury referrals are consistent with DCIA guidelines.

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TSA – FMC 11-11 – Lease Accounting and Disclosure (NFR No. TSA 11-29)

Controls over the receipt of quarterly data call from the office of real estate in order to update the Master Lease Listing (MLL) are not operating effectively. Specifically KPMG noted five instances where General Services Administration (GSA) occupancy agreements identified in June 30, 2011 UDO testwork were not included in the MLL as of September 30, 2011.

The OFM Financial Management Analysis Group (FMAG) issues quarterly data calls to three different entities within TSA:

- The Office of Field Real Estate Services (OFRES)
- Building Management Services (BMS)
- Law Enforcement FAMS, OAQ

Each entity is responsible for different areas of real estate contracts, with the bulk of the leases being occupancy agreements (OAs) between GSA and TSA; these OAs are almost exclusively managed by OFRES. FMAG relies on the responses from these three offices, as well as other compensating controls, to prepare the quarterly MLL for all of TSA. In our test work, we noted several instances where OAs that were included in the June 30, 2011 MLL were not included in the September 30, 2011 MLL. TSA was not able to provide an explanation for the exclusion of at least five of these leases.

While reviewing the procedures followed by FMAG in compiling the quarterly MLLs, we noted that FMAG provides a master listing to the three real estate offices during each data call and asks them to confirm any additions or deletions to the listing. We observed that there are usually several rounds of updates to the master listing, instead of one complete and conclusive update from each of the three real estate offices. We also observed that not all of the real estate offices respond by updating the listing provided by FMAG; sometimes the response is an email with comments, an email with an attached lease agreement, or even phone calls. Finally, we observed that none of the three real estate offices provide a master listing of their own to FMAG. FMAG responded that they believed two of the offices do not have master listings and one of the offices has multiple listings but not a consolidated listing. As a result of our review, we were not able to rely on the controls in place by FMAG to compile the MLL from the three real estate officers.

Recommendations:

We recommend TSA:

- Chief Administrative Officer (CAO) implements a TSA-wide real property management tool to monitor all TSA leases and occupancy agreements. The real property management tool should be designed to capture at a minimum the following information for every lease:
 - Lease Agreement Number
 - Capital vs. Operating Lease indicator
 - Cancelable vs. Non-Cancelable indicator
 - Lease Start Date
 - Lease End Date
 - Lease Disposition (lease expired, lease cancelled, lease replaced by lease no.XXX)

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- Until a TSA-wide lease tracking database can be implemented, the CAO, through the OFRES maintain the official MLL for TSA, and coordinate this list with the other two TSA offices with lease authority (Building Management Service, and Office of Acquisition).
- The MLL prepared by CAO reports all active leases for the period (quarterly), and includes the same information required in the above recommendation.
- The MLL maintained by CAO should include a section for expired/terminated leases that includes the same information provided for active leases; as well as a field that explains the disposition of the lease (lease expired, lease cancelled, lease replaced by lease no.XXX).
- The CAO work with OFM to ensure CAO's process for identifying and tracking leases provides OFM with the information necessary to report leases in the financial statements and prepare JVs as needed.

TSA – FMC 11-12 – Accounting for Advances and Prepayments (*NFR No. TSA 11-30*)

TSA lacks effective internal controls to accurately review potentially capitalizable transactions recorded in the general ledger for appropriate presentation in the financial statements.

Specifically we noted:

- Advances were not properly identified or capitalized as of the balance sheet date.
- One recorded advance was not properly liquidated due to goods and services being received.

Recommendations:

We recommend that TSA:

- Perform a quarterly analysis of agreements with advances to ensure proper recordation of expenses is timely posted and to maintain the necessary supporting documentation to support balances reflected in the trial balance.
- Perform a formalized monthly reconciliation of advances that is reviewed and approved by management.
- Continue to work with USCG FINCEN to properly identify advances that have been paid via the IPAC.
- Implement policies and procedures to ensure that agreements that are prepaid are identified, using a multi step approach, and reported accurately in the financial statement.

TSA – FMC 11-13 – UDOs Documentation – Federal Air Marshals (*NFR No. TSA 11-31*)

We noted that controls were not operating effectively to ensure expenditures are appropriately posted in the general ledger against authorized, obligated dollars in the budgetary accounts (e.g. 4801).

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Recommendations:

We recommend that TSA:

- Initiate a structural change to the mission scheduling process that will mitigate a number of key cost variables that have historically complicated the mission travel projection process.
- Initiate a joint effort between the Financial Management Division of FAMS and the Offices of Flight Operations and Field Operations to conduct a full-scale review of its mission travel financial planning and oversight processes. The goal of this review will be to enhance internal coordination and understanding and to further strengthen the projecting techniques used to develop mission travel estimates.
- Provide a written report of FAMS' findings and recommendations to TSA OFM for review and comment.
- Recommended corrective actions require OFM approval and will be implemented upon mutual agreement.

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IX. UNITED STATES COAST GUARD (USCG or Coast Guard)

USCG – FMC 11-01 – Financial Management Oversight (NFR No. USCG 11-03)

While Coast Guard financial management oversight exists and remediation efforts related to entity-level controls continue, weaknesses in the entity-level control structure continue to affect Coast Guard financial management as follows:

Based on our September 30, 2011 testwork, we noted that the Coast Guard has not fully implemented an internal control environment that supports the philosophy and operating style, commitment to competence, organizational structure, human resources policies and practices, and integrity and ethical values. Specifically:

- The Coast Guard has not developed adequate controls to track and monitor whether the training and continued education courses have been completed by civilian employees to ensure maintenance and improvement of their competencies for their jobs.
- The Coast Guard has not developed adequate controls to track whether all employees receive the Standards of Ethical Conduct upon entry into the USCG. Specifically, USCG was unable to provide evidence to support that Standards of Ethical Conduct was received and reviewed within the first 90 days of duty for eight out of eight civilian employees hired during October 1, 2010 through December 31, 2010.
- The Coast Guard has not developed adequate controls to support employee's awareness of the existence of the DHS OIG Hotline for reporting information on waste, fraud, abuse, and corruption in the workplace to the OIG. Specifically, three out of 10 employees were not aware of the existence of the DHS OIG Hotline through inquiries performed.

Recommendations:

We recommend that the Coast Guard:

- Develop a new system to track and monitor whether training and continued education courses have been completed by civilian employees to ensure maintenance and improvement of their competencies for their jobs.
- Develop a new system to track and document whether new civilian employees complete initial ethics training.
- Develop a new system to raise awareness of the DHS OIG Hotline for reporting information on waste, fraud, abuse, and corruption in the workplace to the OIG.

USCG – FMC 11-02 – Accrued Payroll and Unfunded Leave Accrual (NFR No. USCG 11-10)

We noted that the Coast Guard does not perform a timely reconciliation of annual leave discrepancies identified between payroll related systems.

Recommendations:

We recommend that the Coast Guard:

- Accelerate the rollout of electronic timekeeping to encompass all employees.
- Re-direct staff as available to reconcile differences in civilian employee leave balances between payroll related systems.

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- Establish a more robust procedure for comparing civilian employee leave balances in payroll related systems each pay period and reconciling the differences in a timely manner.

USCG – FMC 11-03 – Financial Disclosure Reports (NFR No. USCG 11-13)

We noted that the Coast Guard had not developed adequate controls to track and monitor the filing and review of the Confidential Financial Disclosure Report (CFDRs), including document retention for the investigation of any violation and corrective actions taken to ensure compliance.

We selected a sample of 15 CFDRs from the 2011 filed CFDRs and noted the following exceptions where the CFDR filing process was not properly followed. Specifically:

- One CFDR was reviewed after the 60 day reviewing period.
- One CFDR was signed by the employee after the date CG-0944 received the form.
- Two CFDR filers did not properly complete all sections required for reporting transactions which could represent a potential conflict of interest.

We noted the Coast Guard has not developed adequate controls to track and monitor compliance with the Coast Guard code of conduct – *Standards of Ethical Conduct*, including evidence of compliance with ethics training requirements.

While the Coast Guard maintained a centralized list of positions required to file a CFDR, we noted the Coast Guard does not maintain a centralized list of employees required to file a CFDR and attend ethical training to monitor compliance with CFDR filing and training requirements. Further, we noted the Coast Guard does not have procedures in place to ensure the completeness or accuracy of the list of individuals required to file CFDRs or Public Financial Disclosure Report (PFDRs).

Recommendation:

We recommend that Coast Guard evaluate and strengthen its internal controls related to CFDR and PFDR filings before December to ensure full compliance with all CFDR and PFDR program rules.

USCG – FMC 11-04 – Operating Materials and Supplies (NFR No. USCG 11-16)

We noted gaps in policies and procedures that prevent consistent implemented control procedures between Aviation Logistics Center (ALC) and Coast Guard Air Stations. Inconsistent document retention requirements, and non-standardized forms, can increase the risk of control deficiencies. More specifically,

- ALC could not provide source documentation for eight out of the 15 selected issuances between October 1, 2010 to June 30, 2011.
- Source documentation for two out of 15 receipts could not be provided because the information was not properly retained by Coast Guard Air Stations.

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During our substantive testing procedures, we noted the following:

As of June 30, 2011:

- The ALC inventory system calculates the weighted average pricing for intragovernmental related purchases using the price at which the asset is ordered and not the amount actually paid. As a result, we noted two known errors of approximately \$30 and a projected error of \$341,312.

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- Similar to June 30, 2011 findings, we noted that for one sample, the incorrect purchase price was used to calculate the weighted average pricing. As a result, we noted a known overstatement of \$123 and a projected overstatement of \$58,248.
- We noted that the quantity on hand for one sample was incorrect as of September 30, 2011, causing a \$12,607 known understatement and a projected understatement of \$198,599.

Recommendations:

We recommend that Coast Guard:

- Closely monitor the implementation of existing Coast Guard requirements to insure compliance at Coast Guard Air Stations.
- Conduct an analysis of the impact and materiality of using ordered price instead of actual price paid in the calculation of weighted average pricing.

USCG – FMC 11-05 – Human Resources Compliance with Laws and Regulations (NFR No. USCG 11-20)

While performing compliance testwork related to Thrift Savings Plan (TSP) elections, we noted the Coast Guard was unable to provide the TSP-1 (TSP election form) for one employee. Additionally, we noted the information provided to evidence the employee's most current TSP election indicated a contribution amount of \$200 per pay period while the employee's TSP contribution made in pay period 12 was \$449. As such, we were unable to verify that the appropriate deduction for the employee was taken in pay period 12.

Recommendation:

We recommend that Coast Guard implement a review process to compare employee TSP elections to the documented TSP deduction being used by the payroll service provider and reported on the employees' leave and earnings statements.

USCG – FMC 11-06 – Actuarial Medical Liabilities (NFR No. USCG 11-24)

During FY 2011, the Coast Guard continued to implement internal control and substantive procedures over medical payment information associated with direct care medical claims. While reviewing the sampling plan implemented to test direct care data, we noted the following related to its design and implementation:

- Selecting only one line per invoice page and only two pages from each invoice may be insufficient for large volume invoices (i.e., invoices with many pages and pages with many lines).

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- The single stage projection methodology applied by the Coast Guard to project errors does not match the sample design. It may be more appropriate for errors to be projected through each stage of the sample, eliminating the need to artificially cap error rates.

Recommendations:

We recommend that Coast Guard:

- Consider the direct care test results from FY 2010 and FY 2011 as well as the conditions above to update the sampling plan for FY 2012.
- Consider eliminating the state of sampling requiring a page number to be randomly selected from a paper invoice patient category and then a line item to be randomly selected from the page.
- Consider the use of electronic reconciliations of the paper invoice patient categories to directly sample line items.

X. CONSOLIDATED (CONS)

CONS – FMC 11-01 – Departmental Standards of Conduct and Procedural Guidance for Financial Disclosure Report Filing (NFR No. CONS 11-01)

During our test work over entity-level controls, we noted that DHS:

- Had not issued DHS's Supplemental Standards of Conduct. Supplemental Standards of Conduct have been developed and approved by the Department. Prior to final issuance of the Supplemental Standards, a notice will be published in the Federal Register for public comment period. The Designated Agency Ethics Official (DAEO) cannot predict when the final approval and issuance in the Federal register will occur.
- Had drafted a revised Secretarial Directive on the Standards of Conduct (Directive Number 123-03). The final version was under internal review and required signature by the Under Secretary for Management.
- Had not issued common department-wide procedural guidance for filing financial disclosure reports. This guidance had been drafted, but issuance was pending approval of the revised Management Directive on the Standards of Conduct.

Recommendation:

We recommend that the DAEO continue to work to issue procedural guidance for financial disclosure reporting, the Secretary's statement on Standards of Conduct, and the Department's supplemental ethics Standards of Conduct.

CONS – FMC 11-02 – Untimely Filing and Review of SF-278 Financial Disclosure Reports (NFR No. CONS 11-03)

Out of a sample of 15 SF-278 financial disclosures filed by SES personnel at NPPD, S&T, and MGT, one report had not been reviewed within 60 days of receipt by Office of General Counsel (OGC) Ethics Division as required by CFR 5 § 2634.605(a). OGC Ethics Division confirmed that additional information was not being sought in this case at that time.

Additionally, one employee out of the sample of 15 had, as of October 11, 2011, not filed the required SF-278. OGC Ethics Division reported that the individual was a new promotion to SES and that he had been contacted several times to remind him to file.

Recommendation:

We recommend that DHS collaborate with the Chief Human Capital Officer to develop a procedure to ensure the Ethics Office is notified when new filers come on board and are promoted, temporarily assigned to, or leave a covered position.

CONS – FMC 11-03 – Preparation and Review of the Special-Purpose Financial Statements and Notes (NFR No. CONS 11-05)

During testwork over the closing package submission, we identified the following errors, resulting in DHS reopening Governmentwide Financial Report System (GFRS) to update the initial closing package submission.

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- GF004F – Trading Partner Summary Note Report – Statement of Changes in Net Position – Other Non-Budgetary Financing Sources – the September 2011 amount for Trading Partner 16, Department of Labor, was misstated resulting in a \$90 million overstatement error. Trading Partner 19, Department of State, was misstated resulting in a \$46 million overstatement error. Trading Partner 49, National Science Fund, was misstated resulting in a \$33 million overstatement error. Trading Partner 95, Independent and Other Agencies, was misstated resulting in a \$169 million understatement error.
- GF006 - Note 3 – Accounts and Taxes Receivable: in Section A – Taxes – the amounts recorded in Line 1 – Interest on uncollectible accounts were reported with the incorrect sign for FY 2011 and FY 2010, \$405 million and \$315 million, respectively.
- GF006 – Note 04A – Direct Loans Receivable and Mortgage Backed Securities
 - In Section C – Components of Loans Receivable, Net – Current Year – Loans were incorrectly entered into the Federal Direct Student Loans category instead of Other, resulting in a \$10 million error.
 - In Section D – Components of Loans Receivable, Net – Current Year – Loans were incorrectly entered into the Federal Direct Student Loans category instead of Other, resulting in a \$85 million error.
- GF006 – Note 06 – PP&E
 - In Line 3 – Capitalized acquisitions from the public, the current year PP&E amount was misstated resulting in a \$42 million understatement error.
 - In Line 4 – Capitalized acquisitions from Government agencies, the current year PP&E amount was misstated resulting in a \$42 million overstatement error.

Recommendations:

We recommend that DHS:

- Conduct a comprehensive review of the current GFRS Financial Reporting Note preparation and review process and identify additional areas for automation and streamlining and document each Financial Reporting Note’s process in detail to show source data.
- Enhance the quality control process of Component-provided data (manual notes and other text explanations) prior to consolidation and input into GFRS.

CONS – FMC 11-04 – Findings Related to the Disbursement Process (NFR No. CONS 11-06)

In performing enhanced procedures over the disbursement control process at DHS, we noted the following:

- A lack of policies and procedures to ensure a consistent, detailed review of invoices and related supporting documentation is completed prior to payment.
- A lack of policies and procedures on how to define a proper invoice within a contract.
- A lack in consistency regarding requirements contained within subcontractor agreements relating to the procedures to be performed when reviewing the invoices for the CO.
- A lack of policies and procedures for the CO to follow to perform appropriate oversight over procedures performed by the subcontractor in relation to invoice verification.
- Current policies and procedures over contract requirements do not address requirements for invoice submission to ensure adequate supporting documentation is received for personnel to perform an effective review prior to payment.

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- Policies and procedures related to invoice review requirements are disaggregated into numerous documents.

Recommendations:

We recommend that DHS:

- Review Component policies and procedures and work with the DHS Office of the Chief Procurement Officer to develop Department-wide guidance to improve disbursement processes for contractual requirements and risks.
- Integrate internal control examination, reperformance, or other substantive test with improper payment testing to provide greater assurance that improper payment risks are mitigated.

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Component	NFR No.	Description	Disposition ¹			
			MW	IAR		FMC
				SD	NC	No.
CBP	11-01	Certification of Refund and Drawback Payments				11-01
CBP	11-02	Insufficient Retention Period for Documents that Support Drawback Claims				11-02
CBP	11-03	Automated Commercial System (ACS) Deficiency over the Accumulation of Accelerated Payments Against a Drawback Bond				11-03
CBP	11-04	ACS Limitations – Review of Prior Related Drawback Claims and Selectivity for Underlying Consumption Entries		I		
CBP	11-05	ACS Deficiencies over Non-Entity Accounts Receivable and CBP's Ability to Effectively Monitor Collection Actions			K	
CBP	11-06	Lack of System Integration and Compliance with the United States Standard General Ledger (USSGL) at the Transaction Level Related to Inventory and Related Property, Net.			K	
CBP	11-07	Weaknesses in CBP's Processes Related to Asset Additions and Classification of Property, Plant, and Equipment (PP&E) Related Transactions as of April 30, 2011	C			
CBP	11-07b	Weaknesses in CBP's Processes Related to Asset Additions and Classification of Property, Plant, and Equipment (PP&E) Related Transactions as of July 31, 2011 and September 30, 2011	C			
CBP	11-08	Improper Settlement of Assets, Including Untimely Capitalization of Assets from Construction in Progress (CIP) as of April 30, 2011	C			
CBP	11-08b	Improper Settlement of Assets, Including Untimely Capitalization of Assets from Construction in Progress (CIP) as of July 31, 2011 and September 30, 2011	C			
CBP	11-09	Weaknesses in CBP's Processes Related to Asset Disposals as of April 30, 2011	C			
CBP	11-09b	Weaknesses in CBP's Processes Related to Asset Disposals as of July 31, 2011 and September 30, 2011	C			
CBP	11-10	Lack of Controls over Timely Processing of Goods and Services Received as of March 31, 2011				11-04
CBP	11-10b	Lack of Controls over Timely Processing of Goods and Services Received as of July 31, 2011 and September 30, 2011				11-04
CBP	11-11	Weaknesses in the Monitoring and Review Process over Fines, Penalties, and Forfeiture (FP&F) Cases				11-05
CBP	11-12	Lack of Implementation of Controls over Determining Classification of Leases				11-06
CBP	11-13	Weaknesses in the Review of Weekly Entry Edit/Exception Reports				11-07
CBP	11-14	Lack of Evidence of Review of the Drawback Auto/Deemed (D28) Alert Report				11-08
CBP	11-15	Detection of Excessive Drawback Claims		I		
CBP	11-16	Deficiencies in the In-Bond Process		I		
CBP	11-17	Deficiencies in the Public Financial Disclosure Reporting Process				11-09
CBP	11-18	Deficiencies in the Performance Management Program				11-10
CBP	11-19	Weaknesses in Controls over Automated Journal Entries				11-11

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Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
CBP	11-20	Weaknesses in Controls over the Bond Sufficiency Review Process				11-12
CBP	11-21	Incorrect Use of CBP Overtime Scheduling System Codes				11-13
CBP	11-22	Lack of Formal Process for Determining Required Supervisory Reviews				11-14
CBP	11-23	Deficiencies over Monitoring of Ethics Requirements				11-15
CBP	11-24	Incomplete Undelivered Orders (UDOs) Quarterly Review				11-16
CBP	11-25	Weaknesses Identified in the Bonded Warehouse and Foreign Trade Zone Processes and Procedures		I		
CBP	11-26	Weaknesses in the Trade Compliance Measurement Program				11-17
CBP	11-27	Management Oversight of PP&E	C			
CBP	11-28	Untimely De-obligation of UDOs and Monitoring of Period of Performance				11-18
CBP	11-29	Weaknesses in CBP's Process Related to Recording Construction Percentage of Completion Amounts	C			
CBP	11-30	Weaknesses in CBP's Payroll Reconciliation Process				11-19
CBP	11-31	Insufficient Review of Manual Journal Entries				11-20
CBP	11-32	Deficiencies in the Review of the Department of Labor (DOL) Chargeback Report				11-21
FEMA	11-01	Insufficient Controls over Processing Mission Assignments (MAs)	E			
FEMA	11-02	Deficiencies in Development and Application of Policies Related to the Non-Grant, Non-MA, Non-System-Generated Accounts Payable Accrual				11-01
FEMA	11-03	Non-Compliance with 5 CFR Part 2638 and 5 CFR Part 2638 Related to Ethical Requirements		F		
FEMA	11-04	Inability to Closeout Assistance to Firefighter Grants (AFG)				11-02
FEMA	11-05	Deficiencies in Development of MA Policies and Procedures				11-03
FEMA	11-06	Ineffective Controls over Processing and Monitoring Obligations	E			
FEMA	11-07	Incomplete Implementation of Controls over the Recording of Funding Transactions	E			
FEMA	11-08	Lack of Certain Documentation Related to Compliance with the Improper Payments Elimination and Recovery Act of 2010				11-04
FEMA	11-09	Ineffective Controls over Tracking Grants Eligible for Closeout		H		
FEMA	11-10	Financial Monitoring of Grants by the Grant Programs Directorate		H		
FEMA	11-11	Inability to Link Systems to Significant Grant Programs				11-05
FEMA	11-12	Deficiencies in the Preparation and Review of the Government Accountability Office (GAO) Financial Audit Manual (FAM) 2010 – Checklist for Federal Accounting (the Checklist)				11-06
FEMA	11-13	Monitoring of Audit Findings in Accordance with Office of Management and Budget (OMB) Circular Nos. A-133 and A-		H		

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Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
		50, and Related Compliance Matters				
FEMA	11-14	Inaccuracy of Claims' Loss Reserves at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program (NFIP)				11-07
FEMA	11-15	Internal Control Deficiencies over Claims Paid at Selected Insurance Companies that Participate in FEMA's NFIP				11-08
FEMA	11-16	Lack of Formal Policies and Procedures in Various Areas		F		
FEMA	11-17	Deficiencies in the Monthly Spend Plan Reconciliation Preparation Process				11-09
FEMA	11-18	Deficiencies Identified in the General Ledger Chart of Accounts and Transaction Codes				11-10
FEMA	11-19	Improvements Needed in Review and Recording of Year-end MA Accrual				11-11
FEMA	11-20	Ineffective Controls over Grants Management		H		
FEMA	11-21	Budgetary Accounting Issues Identified in Journal Voucher (JV) Testwork Through September 30, 2011	E			
FEMA	11-22	Improvements Needed in Management's Review of Grant Data and Automated Reconciliations in Grant Accrual Models				11-12
FEMA	11-23	Issues Identified in JV Testwork through September 30, 2011				11-13
FEMA	11-24	Compliance with the Prompt Payment Act				11-14
FEMA	11-25	Improper Processing and Untimely De-Obligation of UDOs	E			
FEMA	11-26	Deficiencies in Verification and Collection of Performance Measurement Data for the Annual Financial Report's Management's Discussion and Analysis				11-15
FEMA	11-27	Deficiencies in the Grant Accrual Methodology				11-16
FEMA	11-28	Deficiencies over the NFIP Treasury Information Executive Repository (TIER) JV Adjustments				11-17
FEMA	11-29	Lack of communication regarding the existence of the Department of Homeland Security (DHS) Office of Inspector General (OIG) Fraud Hotline				11-18
FLETC	11-01	Capitalization of PP&E				11-01
USCIS	11-01	Lack of Controls over List-to-Floor Manual Processes	A			
USCIS	11-02	Deficiencies in the Timely Recording of Capital PP&E				11-01
USCIS	11-03	Lack of Policies and Procedures over Non-Itemized Invoices for PP&E				11-02
USCIS	11-04	Inadequate and/or Inconsistent Supervisory Review of Personnel Actions				11-03
USCIS	11-05	Inadequate Supervisory Review of the Intra-Departmental Eliminations Reconciliation				11-04
USCIS	11-06	Untimely Change in Accounting Policies and Practices	A			
USCIS	11-07	Inadequate Data in the Claims 3, Claims 4, and MFAS Systems	A			
USCIS	11-08	Inadequate Documentation and Untimely Capitalization of IUS				11-05

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Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
ICE	11-01	The Federal Financial Management System (FFMS) has the Ability to Make Duplicate Payments	B			
ICE	11-02	Failure to Record Payroll Accrual				11-01
ICE	11-03	General Journal (GJ) Entry Not Approved by Office of Financial Management (OFM) Director				11-02
ICE	11-04	Inadequate Internal Controls over Tracking and Removing Accumulated Depreciation in Sunflower Asset Management System				11-03
ICE	11-05	Process for Identifying Contract-type Obligations for Contract Closeout is Delayed				11-04
ICE	11-06	Inadequate Internal Controls over Tracking Leasehold Improvement Projects				11-05
ICE	11-07	Untimely Recording of Capitalized Asset Disposals				11-06
ICE	11-08	Reimbursable Agreements Not Timely Approved by Budget Officer				11-07
ICE	11-09	<i>Number Not Used</i>	Not applicable			
ICE	11-10	Contracting Officer has Access to Approve Invoices in FFMS				11-08
ICE	11-11	Incorrect Federal Employees' Group Life Insurance Deduction				11-09
ICE	11-12	Untimely Review of Office of Government Ethics 278 Forms				11-10
ICE	11-13	Insufficient Documentation for Federal Employees' Compensation Act Claims				11-11
ICE	11-14	<i>Federal Financial Management Improvement Act of 1996 (FFMIA) Compliance</i>			K	
ICE	11-15	Inadequate Controls over New Hire Ethics Briefings				11-12
ICE	11-16	Subject to Availability of Funding Agreements not Obligated in FFMS at Outset of Agreement				11-13
ICE	11-17	Ineffective Internal Controls over Leave Audit Process				11-14
ICE	11-18	ICE Does Not Accrue Capitalized Costs Incurred at Year-end for Software and Leasehold Improvement Projects				11-15
ICE	11-19	Inadequate Internal Controls over Tracking of IUS Projects				11-16
MGT	11-01	Inadequate Internal Controls over PP&E	C			
NPPD	11-01	Inadequate Internal Controls over Reporting of Government Furnished Equipment Asset Disposals				11-01
NPPD	11-02	Subject to Availability of Funding Agreements Not Obligated in FFMS at Outset of Agreement				11-02
NPPD	11-03	Potential Antideficiency Act Violation			N	
NPPD	11-04	Inadequate Internal Controls over Reporting of IUS Projects				11-03
NPPD	11-05	Inadequate Internal Controls over Reporting of Equipment				11-04
NPPD	11-06	Untimely Reporting of Leasehold Improvements				11-05

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Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
S&T	11-01	Inadequate Internal Controls over Reporting of CIP and Buildings				11-01
S&T	11-02	Untimely De-obligation of UDOs				11-02
S&T	11-03	Inadequate Controls over New Hire Ethics Briefings				11-03
S&T	11-04	Insufficient Internal Controls to Ensure Timely Reporting of IUS in Development and Personal Property				11-04
TSA	11-01	Employee Record Management and Compliance with Human Resource Related Laws				11-01
TSA	11-02	Accrued Payroll Controls				11-02
TSA	11-03	Ineffective Controls at the Dallas Warehouse	C			
TSA	11-04	Ineffective Controls over the Time and Attendance Process				11-03
TSA	11-05	PP&E Federal Air Marshals (FAMS)	C			
TSA	11-06	PP&E Site Visits	C			
TSA	11-07	Policies and Procedures over the PP&E Process	C			
TSA	11-08	GAO Checklist				11-04
TSA	11-09	Incorrect Trading Partner Codes	A			
TSA	11-10	UDO Process				11-05
TSA	11-11	<i>Number Not Used</i>	Not applicable			
TSA	11-12	Review of Journal Entries				11-06
TSA	11-13	<i>Number Not Used</i>	Not applicable			
TSA	11-14	Accounts Payable Process				11-07
TSA	11-15	PP&E Provided by Client Issues	C			
TSA	11-16	Lack of Policies and Procedures over IUS	C			
TSA	11-17	Warehouse Reconciliation to the General Ledger	C			
TSA	11-18	Travel Authorization Approval				11-08
TSA	11-19	Accounting for Other Direct Costs	C			
TSA	11-20	Accounts Receivable Controls	A			
TSA	11-21	Reporting PP&E	C			
TSA	11-22	Undelivered Orders Documentation				11-09
TSA	11-23	Entity-Level Controls	A	F		
TSA	11-24	Non-Compliance with the <i>Debt Collection Improvement Act of 1996</i>				11-10
TSA	11-25	Warehouse Controls	C			
TSA	11-26	Accounts Payable Balance	C			
TSA	11-27	Financial Reporting Deficiencies	A			
TSA	11-28	Non-Compliance with FFMIA			K	
TSA	11-29	Lease Accounting and Disclosure				11-11
TSA	11-30	Accounting for Advances and Prepayments				11-12

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Component	NFR No.	Description	Disposition ¹			
			MW	SD	NC	FMC No.
TSA	11-31	Undelivered Orders Documentation – FAMS				11-13
USCG	11-01	Environmental Liabilities	D			
USCG	11-02	Heritage Assets	C			
USCG	11-03	Financial Management Oversight				11-01
USCG	11-04	Statement of Net Cost	A			
USCG	11-05	Fund Balance with Treasury (FBWT) Reconciliations		G		
USCG	11-06	Cumulative Results of Operations	A			
USCG	11-07	UDOs	E			
USCG	11-08	Legal Liability Reporting	D			
USCG	11-09	Accrued Payroll and Unfunded Leave Accrual (Military)	D			
USCG	11-10	Accrued Payroll and Unfunded Leave Accrual				11-02
USCG	11-11	Financial Reporting Process	A			
USCG	11-12	Accounts Payable Accrual	D			
USCG	11-13	Financial Disclosure Reports				11-03
USCG	11-14	Purchase Requests/Commitments	E			
USCG	11-15	Accounts Receivable	A			
USCG	11-16	Operating Materials and Supplies				11-04
USCG	11-17	PP&E Non-CIP Assets	C			
USCG	11-18	<i>Federal Managers' Financial Integrity Act of 1982</i>			J	
USCG	11-19	PP&E Asset Records	C			
USCG	11-20	Human Resources Compliance with Laws and Regulations				11-05
USCG	11-21	Intragovernmental Transactions and Balances	A			
USCG	11-22	PP&E: Repairables	C			
USCG	11-23	PP&E: CIP	C			
USCG	11-24	Actuarial Medical Liabilities				11-06
USCG	11-25	Federal Managers' Financial Integrity Act of 1996			K	
USCG	11-26	PP&E: 4 th Quarter Site Visit Observations	C			
CONS	11-01	Departmental Standards of Conduct and Procedural Guidance for Financial Disclosure Report Filing				11-01
CONS	11-02	Audited Financial Statements			K, M	
CONS	11-03	Untimely Filing and Review of SF-278 Financial Disclosure Reports				11-02
CONS	11-04	Non-Compliance with OMB Circular A-136 & <i>Government Performance and Results Act</i>			O	
CONS	11-05	Preparation and Review of the Special-Purpose Financial Statements and Notes				11-03
CONS	11-06	Findings Related to the Disbursement Process				11-04

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¹Disposition Legend:

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

Cross-reference to the applicable sections of the IAR:

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

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Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2011 NFR No.)
CBP	10-01	Untimely De-obligation of Inactive Obligations		CBP 11-24
CBP	10-02	FFMIA: Lack of System Integration and Compliance with the USSGL at the Transaction Level Related to Inventory and Related Property, Net		CBP 11-06
CBP	10-03	ACS Limitations – Review of Prior Related Drawback Claims and Selectivity for Underlying Consumption Entries		CBP 11-04
CBP	10-04	ACS Deficiencies over Non-entity Account Receivable and CBP's Ability to Effectively Monitor Collection Actions		CBP 11-05
CBP	10-05	ACS Deficiency over the Accumulation of Claims Against a Drawback Bond		CBP 11-03
CBP	10-06	<i>Number not used</i>	Not applicable	
CBP	10-07	Improper Control Design of "Failed Disbursements Report"	X	
CBP	10-08	Lack of Controls over the Timely Processing of Goods and Services Received		CBP 11-10 CBP 11-10b
CBP	10-09	Weakness in CBP's Search for Unrecorded Accounts Payable Used to Support the Accounts Payable Estimate	X	
CBP	10-10	Weaknesses in the Monitoring and Review Process over the Completion of FP&F Cases		CBP 11-11
CBP	10-11	Weakness in the Review of Weekly/Monthly Entry Edit Reports		CBP-11-13
CBP	10-12	Weaknesses in CBP's Processes Related to Asset Additions and Classification of PP&E Related Transactions		CBP 11-07
CBP	10-13	Lack of Implementation of Controls over Determining Capital Leases		CBP 11-12
CBP	10-14	Deficiencies in the In-Bond Process		CBP 11-16
CBP	10-15	Weaknesses in CBP's Processes Related to Asset Disposals		CBP 11-09
CBP	10-15b	Weaknesses in CBP's Processes Related to Asset Disposals as of July 31, 2010 and September 30, 2010		CBP 11-09b
CBP	10-16	Insufficient Retention Period for Documents that Support Drawback Claims		CBP 11-02
CBP	10-17	Lack of Formal Policies over Review of Importer Self-Assessment Annual Notification Letters	X	
CBP	10-18	Failure to Complete Supervisory Review of Drawback Claims		CBP 11-22
CBP	10-19	Certification of Refund and Drawback Payments		CBP 11-01
CBP	10-20	Detection of Excessive Drawback Claims		CBP 11-15
CBP	10-21	Failure to Review the D28 Alert Report		CBP 11-14
CBP	10-22	Weaknesses in CBP's Controls over Automated Journal Entries and Misstatement of Liabilities Related to Injured Domestic Injuries		CBP 11-19
CBP	10-23	Deficiencies in CBP's Controls over the Application of Benefits to C-TPAT Partners	X	
CBP	10-24	Weaknesses in CBP's Process Related to Recording Construction Percentage of Completion Amounts		CBP 11-29
CBP	10-25	Improper Settlement of Assets, Including Untimely Capitalization of Assets from CIP		CBP 11-08
CBP	10-25b	Improper Settlement of Assets, Including Untimely Capitalization of Assets from CIP as of July 31, 2010 and September 30, 2010		CBP 11-08b
CBP	10-26	Oversight of Financial Reporting Issues	X	
CBP	10-27	Intra-departmental Eliminating Journal Entries Related to Operating Expenses Without Sufficient Supporting Documentation	X	
CBP	10-28	Deficiencies in CBP's Controls over Calculating the Validity and Collectability of Non-Entity Taxes, Duties and Trade Receivables, Net	X	

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Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2011 NFR No.)
CBP	10-29	Management Oversight of PP&E		CBP 11-27
CBP	10-30	Weaknesses Identified in the Bonded Warehouse and Foreign Trade Zone Process and Procedures		CBP 11-25
CBP	10-31	Inadequate Oversight of Trade Compliance Measurement		CBP 11-26
CBP	10-32	Lack of Segregation of Duties and Insufficient Review for Manual Journal Entries		CBP 11-31
CBP	10-33	Deficiencies in CBP's Seized Inventory Process	X	
CBP	10-34	Improper Payment of Interest	X	
CBP	10-35	Insufficient Documentation of Statement on Auditing Standards (SAS) 70 Review	X	
CBP	10-36	Weaknesses in CBP's Processes Related to Asset Additions and Classification of PP&E Related Transactions as of July 31, 2010 and September 30, 2010		CBP-11-07b
CBP	10-37	<i>Number not used</i>		Not applicable
CBP	10-38	<i>Number not used</i>		Not applicable
CBP	10-39	Untimely De-obligation of UDOs		CBP 11-28
CBP	10-40	Deficiencies in CBP's Office and Air and Marine Inventory Process	X	
CBP	10-41	Inability to Support the Injured Domestic Industries Liability	X	
FEMA	10-01	Internal Control Deficiencies over Claims Paid at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program (NFIP)		FEMA 11-15
FEMA	10-01a	Internal Control Deficiencies over Claims Paid at Selected Insurance Companies that Participate in FEMA's NFIP		FEMA 11-15
FEMA	10-02	Inaccuracy of Claims' Loss Reserves at Selected Insurance Companies that Participate in FEMA's NFIP		FEMA 11-14
FEMA	10-02a	Inaccuracy of Claims' Loss Reserves at Selected Write Your Own Insurance Companies that Participate in FEMA's NFIP		FEMA 11-14
FEMA	10-03	Lack of Formal Policies and Procedures in Various Areas		FEMA 11-16
FEMA	10-04	Non-Compliance with 5 CFR Part 2638 and 5 CFR Part 2638 Related to Ethical Requirements		FEMA 11-03
FEMA	10-05	Internal Control Deficiencies Identified over Premiums Written at Selected Insurance Companies that Participate in FEMA's NFIP	X	
FEMA	10-05a	Internal Control Deficiencies Identified over Premiums Written at Selected Insurance Companies that Participate in FEMA's NFIP	X	
FEMA	10-06	Deficiencies in the Budget Execution Report Preparation Process		FEMA 11-17
FEMA	10-07	Deficiencies in Development and Application of Policies Related to the Non-Grant, Non-MA, Non-System-Generated Accounts Payable Accrual		FEMA 11-02
FEMA	10-08	Control Deficiencies and Underlying Data Deficiencies Related to the Non-Grant, Non-MA, Non-System-Generated Accounts Payable Accrual	X	
FEMA	10-09	Deficiencies in the Preparation and Review of the GAO Financial Audit Manual FAM 2010 – Checklist for Federal Accounting		FEMA 11-12
FEMA	10-10	Inherited Problems in Legacy Grants and Training's (G&T) General Ledger and Other Issues Noted in the Transaction Information Repository System (TIER) to General Ledger Reconciliation as of June 30, 2010		FEMA 11-23
FEMA	10-11	Control Deficiencies Noted in the Financial Reporting Environment as of March 31, 2010	X	

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Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2011 NFR No.)
FEMA	10-12	Insufficient Office of the Chief Financial Officer (OCFO) Review of FEMA's Legal Liability and Related Disclosure	X	
FEMA	10-13	Deficiencies Identified in the General Ledger Chart of Accounts and Transaction Codes		FEMA 11-18
FEMA	10-14	Ineffective Controls over Processing Obligations		FEMA 11-06
FEMA	10-15	Deficiencies in Development of MA Policies and Procedures		FEMA 11-05
FEMA	10-16	Ineffective Controls over Processing and Monitoring MAs		FEMA 11-01 FEMA 11-01a
FEMA	10-17	Improvements Needed in Review and Recording of Year-End MA Accrual		FEMA 11-19
FEMA	10-18	Financial Monitoring of Grants by the Former Office of G&T		FEMA 11-10
FEMA	10-19	Ineffective Controls over Grants Management		FEMA 11-20
FEMA	10-20	Lack of Certain Documentation Related to Compliance with the Improper Payments Information Act of 2002, as amended		FEMA 11-08
FEMA	10-21	Budgetary Accounting Issues Identified JV Testwork through June 30, 2010		FEMA 11-21
FEMA	10-21a	Budgetary Accounting Issues Identified JV Testwork from July 1, 2010 through September 30, 2010		FEMA 11-21
FEMA	10-22	Inability to Link Systems to Significant Grant Programs		FEMA 11-11
FEMA	10-23	Failure to Identify and Assess Accounting Policies/Practices Not In Accordance with Generally Accepted Accounting Principles (Non-GAAP)	X	
FEMA	10-24	Improvements Needed in Management's Review of Grant Data and Automated Reconciliations in Grant Accrual Models		FEMA 11-22
FEMA	10-25	Deficiency Identified Related to the Preparation and Review of the Retrospective Reserve Analysis	X	
FEMA	10-26	Issues Deficiencies Identified in JV Testwork through June 30, 2010		FEMA 11-23
FEMA	10-26a	Issues Deficiencies Identified in JV Testwork from July 1, 2010 through September 30, 2010		FEMA 11-23
FEMA	10-27	Monitoring of Audit Findings in Accordance with OMB Circular No. A-133 and No. A-50, and Related Compliance Matters		FEMA 11-13
FEMA	10-28	Lack of Supporting Documentation for Prompt Payment Sample Item		FEMA 11-24
FEMA	10-29	Deficiency in the Methodology Used to Calculate the Non-Current Portion of the Insurance Liability Estimate	X	
FEMA	10-30	Failure to Close Assistance to Firefighter Grants Timely		FEMA 11-04
FEMA	10-31	Deficiencies over the NFIP TIER JV Adjustments		FEMA 11-28
FEMA	10-32	Untimely De-Obligation of UDOs and Accounting for Public Assistance Grant Arbitration Cases in FY 2010		FEMA 11-25
FLETC	10-01	Management Review of Purchase Card Statements	X	
FLETC	10-02	FFMIA Compliance	X	
FLETC	10-03	Accounts Payable Estimation Methodology & True-Up Analysis	X	
USCIS	10-01	Inadequate and/or Inconsistent Supervisor Review of Payroll Transactions	X	
USCIS	10-02	Inadequate and/or Inconsistent Supervisor Review of General Journal Entries	X	
USCIS	10-03	Improper Expensing of Capitalized Equipment	X	
USCIS	10-04	Deficiencies in the Deferred Revenue Quality Assurance Process and the Internal Control Environment		USCIS-11-07

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Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2011 NFR No.)
USCIS	10-05	Inadequate Supervisory Review of the Intra-Departmental Eliminations Reconciliation		USCIS-11-05
USCIS	10-06	Leasehold Improvement Costs Were Not Capitalized Timely		USCIS-11-02
USCIS	10-07	Inadequate and/or Inconsistent Supervisor Review of Personnel Actions		USCIS-11-04
ICE	10-01	Inadequate Internal Controls over Tracking Leasehold Improvement Projects		ICE-11-06
ICE	10-02	Inadequate Internal Controls over Tracking IUS Projects		ICE-11-19
ICE	10-03	Ineffective Internal Controls over Leave Audit Process		ICE-11-17
ICE	10-04	Ineffective Review Controls over the Preparation and Submission of the Contingent Legal Liabilities Documentation	X	
ICE	10-05	Ineffective Internal Controls over SF-224 Process	X	
ICE	10-06	Immigration Bonds were not Deposited in a Timely Manner	X	
ICE	10-07	Untimely De-Obligation of UDO Balances		ICE-11-05
ICE	10-08	Subject to Availability of Funding Agreements not Obligated in FFMS at Outset of Agreement		ICE-11-16
ICE	10-09	ICE Does Not Accrue Capitalized Costs Incurred at Year-End for Software and Leasehold Improvement Projects		ICE-11-18
ICE	10-10	Accounts Payable Estimate Methodology Does Not Include a Comparison to Actual Amounts	X	
ICE	10-11	FFMS has the Ability to Make Duplicate Payments		ICE-11-01
ICE	10-12	IPAC Payments are Being Made Prior to an Obligation Being Set Up in FFMS	X	
ICE	10-13	ICE was Unable to Support Undelivered Orders Balances in a Timely Manner at Year-End	X	
ICE	10-14	FFMIA Compliance		ICE-11-14
MGT	10-01	Inadequate Internal Controls over PP&E		MGT-11-01
NPPD	10-01	Inadequate Internal Controls over Reporting of IUS Projects		NPPD-11-04
NPPD	10-02	Inconsistent Application of Property Capitalization Thresholds at NPPD	X	
NPPD	10-03	Untimely De-Obligation of UDOs	X	
NPPD	10-04	Potential ADA Violation		NPPD-11-03
NPPD	10-05	Subject to Availability of Funding Agreements Not Obligated in FFMS at Outset of Agreement		NPPD-11-02
NPPD	10-06	Obligations Are Not Recorded in FFMS in a Timely Manner	X	
NPPD	10-07	Payment Processed Without Contracting Officer Certification	X	
S&T	10-01	Inadequate Internal Controls over Reporting of CIP and Buildings		S&T 11-01
S&T	10-02	Insufficient Internal Controls to Ensure Timely Reporting of IUS in Development and Personal Property		S&T 11-04
TSA	10-01	Warehouse Inventory System and Procedures		TSA 11-25

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Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2011 NFR No.)
TSA	10-02	Compliance with Human Resources Related Laws		TSA 11-01
TSA	10-03	Accrued Payroll Controls		TSA 11-02
TSA	10-04	Accounts Receivable Controls		TSA 11-20
TSA	10-05	Ineffective Controls at the Dallas Warehouse		TSA 11-03
TSA	10-06	Non-Compliance with Debt Collection Improvement Act of 1996		TSA 11-24
TSA	10-07	Policies and Procedures over the PP&E Process		TSA 11-07
TSA	10-08	Ineffective Controls over the Time and Attendance Process		TSA 11-04
TSA	10-09	PP&E Site Visits		TSA 11-06
TSA	10-10	Fund Balance with Treasury Controls	X	
TSA	10-11	Lack of Policies and Procedures over IUS		TSA 11-16
TSA	10-12	Accounts Payable Process		TSA 11-14
TSA	10-13	Incorrect Trading Partner Codes		TSA 11-09
TSA	10-14	Accounting for Other Direct Costs Incurred in FY 2009 and Prior		TSA 11-19
TSA	10-15	Untimely Update of Asset Transfers	X	
TSA	10-16	UDOs Documentation		TSA 11-22
TSA	10-17	Entity-Level Controls		TSA 11-23
TSA	10-18	<i>Number not used</i>		Not applicable
TSA	10-19	Reporting PP&E		TSA 11-21
TSA	10-20	Financial Reporting Deficiencies		TSA 11-27
TSA	10-21	Non-Compliance with the FFMIA		TSA 11-28
TSA	10-22	<i>Number not used</i>		Not applicable
TSA	10-23	Grant Monitoring and Compliance with OMB Circular No. A-133, Audit of Sales, Local Governments and Nonprofit Organizations	X	
TSA	10-24	<i>Number not used</i>		Not applicable
TSA	10-25	<i>Number not used</i>		Not applicable
TSA	10-26	Review of JVs		TSA 11-12
TSA	10-27	Review of Service Organizations' Internal Controls	X	
TSA	10-28	<i>Number not used</i>		Not applicable
TSA	10-29	Accounts Payable Balance		TSA 11-26
TSA	10-30	Lease Accounting and Disclosure		TSA 11-29
USCG	10-01	Heritage Assets		USCG 11-02
USCG	10-02	Purchase Requests/Commitments		USCG 11-14
USCG	10-03	Statement of Net Cost		USCG 11-04
USCG	10-04	Contracting Officer Warrant Authority	X	
USCG	10-05	Environmental Liabilities		USCG 11-01
USCG	10-06	PP&E Non-CIP Assets		USCG 11-17
USCG	10-07	Vessels and Small Boats Useful Lives	X	

Department of Homeland Security
 Status of Prior Year NFRs
 September 30, 2011

Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2011 NFR No.)
USCG	10-08	FFMIA		USCG 11-25
USCG	10-09	Cumulative Results of Operations		USCG 11-06
USCG	10-10	Financial Disclosure Reports		USCG 11-13
USCG	10-11	PP&E Asset Records		USCG 11-19
USCG	10-12	Legal Liability Reporting		USCG 11-08
USCG	10-13	Actuarial Post Employment Travel Liability	X	
USCG	10-14	PP&E: Repairables		USCG 11-22
USCG	10-15	Intragovernmental Transactions and Balances		USCG 11-21
USCG	10-16	PP&E: Fourth Quarter Site Visit Observations		USCG 11-26
USCG	10-17	PP&E Construction in Progress		USCG 11-23
USCG	10-18	Financial Management Oversight		USCG 11-03
USCG	10-19	Permanent Change of Station – Separation/Retirement Presentation	X	
USCG	10-20	FBWT – Reconciliations		USCG 11-05
USCG	10-21	Suspense Accounts	X	
USCG	10-22	Accrued Payroll and Unfunded Leave Accrual (Military)		USCG 11-09
USCG	10-23	Operating Materials and Supplies		USCG 11-16
USCG	10-24	Accrued Payroll and Unfunded Leave Accrual		USCG 11-10
USCG	10-25	FY 2010 Actuarial Liabilities Restatement	X	
USCG	10-26	Accounts Payable Accrual		USCG 11-12
USCG	10-27	Undelivered Orders		USCG 11-07
USCG	10-28	Financial Reporting Process		USCG 11-11
USCG	10-29	Federal Managers’ Financial Integrity Act		USCG 11-18
USCG	10-30	Actuarial Medical Liabilities		USCG 11-24
USCG	10-31	Accounts Receivable		USCG 11-15
USCG	10-32	FBWT and Unexpended Appropriations	X	
USSS	10-01	Adjustments in the USSS Counterfeit Footnote Support Schedule	X	
USSS	10-02	GAO Report Findings	X	
CONS	10-01	Tracking System for Ethics Training, Public Financial Disclosures, and Confidential Reports		CONS 11-01
CONS	10-02	Preparation of the Departmental Interim Legal Letter	X	
CONS	10-03	Audited Financial Statements		CONS 11-02
CONS	10-04	<i>Number not used</i>		Not applicable
CONS	10-05	Lack of SAS 70 Roll-forward Guidance	X	
CONS	10-06	Compliance with OMB Circular A-136		CONS 11-04
CONS	10-07	Statement of Net Cost (SNC) Methodologies and IT Systems Functionality		CONS 11-04
CONS	10-08	Discrepancies Exist Between DHS Guidance and the TIER Analytical Report	X	

Department of Homeland Security
Status of Prior Year NFRs
 September 30, 2011

Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2011 NFR No.)
CONS	10-09	<i>Number not used</i>		Not applicable
CONS	10-10	Non-Compliance with OMB Circular A-50, <i>Audit Followup</i>	X	
CONS	10-11	Preparation and Review of the Special-Purpose Financial Statements and Notes		CONS-11-05

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

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


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

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



**Homeland
Security**

MEMORANDUM FOR: Anne Richards
Assistant Inspector General for Audits

FROM: 
Larry J. Bedker
Director, DHS Financial Management

SUBJECT: Management Letter for the DHS' FY 2011 Financial Statements
and Internal Control over Financial Reporting Audit

Thank you for the opportunity to comment on the Draft Management Letter for the FY 2011 DHS Financial Statements and Internal Control over Financial Reporting Audit. We concur with the report's recommendations and remain fully committed to addressing our outstanding financial management challenges. We appreciate your office's contributions and insights, and we look forward to working with you as we implement our corrective actions and the *DHS Financial Accountability Act*.

If you have any questions, please contact me at (202) 447-5216 or larry.bedker@dhs.gov.

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