



Department of Homeland Security Office of Inspector General

U.S. Citizenship and Immigration Services' Management Letter for FY 2010 DHS Consolidated Financial Statements Audit





Homeland Security

MAR 28 2011

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 U.S. Citizenship and Immigration Services' Management Letter for FY 2010 DHS Consolidated Financial Statements Audit. It contains observations related to internal control that were not required to be reported in the financial statements audit report. The independent public accounting firm KPMG LLP (KPMG) performed the integrated audit of DHS' FY 2010 financial statements and internal control over financial reporting and prepared this management letter. KPMG is responsible for the attached management letter dated March 3, 2011, 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 implementation. We trust this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in cursive script, reading "Anne L. Richards".

Anne L. Richards
Assistant Inspector General for Audits



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

March 3, 2011

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

Ladies and Gentlemen:

We were engaged to audit the balance sheet of the U.S. Department of Homeland Security (DHS or Department) as of September 30, 2010 and the related statement of custodial activity for the year then ended (referred to herein as “financial statements”). We were also engaged to examine the Department’s internal control over financial reporting of the balance sheet as of September 30, 2010, and the statement of custodial activity for the year then ended. We were not engaged to audit the accompanying statements of net cost, changes in net position, and budgetary resources for the year ended September 30, 2010 (referred to herein as other fiscal year (FY) 2010 financial statements), or to examine internal control over financial reporting over the other FY 2010 financial statements.

Because of matters discussed in our *Independent Auditors’ Report*, dated November 12, 2010, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the FY 2010 financial statements and we were unable to perform procedures necessary to form an opinion on DHS’ internal control over financial reporting of the balance sheet as of September 30, 2010 and the related statement of custodial activity for the year then ended. U.S. Citizenship and Immigration Services (USCIS) is a component of DHS. We noted certain matters involving internal control and other operational matters, related to USCIS that are summarized in the Table of Financial Management Comments on the following pages, and presented for your consideration in Section I of this letter. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. These comments are in addition to the significant deficiencies presented in our *Independent Auditors’ Report*, dated November 12, 2010, included in the FY 2010 DHS *Annual Financial Report*. A description of each internal control finding, not related to information technology, and its disposition as either a significant deficiency or a financial management comment is provided in Appendix A. Our findings related to information technology systems security have been presented in a separate letter to the Office of Inspector General and the USCIS Chief Financial Officer and Chief Information Officer.

As described above, the scope of our work was not sufficient to express an opinion on the balance sheet as of September 30, 2010 or the statement of custodial activity of DHS for the year then ended, and we were not engaged to audit the statements of net cost, changes in net position, and budgetary resources for the year ended September 30, 2010. Accordingly, other internal control matters may have been identified and reported had we been able to perform all procedures necessary to express an opinion on the FY 2010 financial statements and had we been engaged to audit the other FY 2010 financial statements. We aim, however, to use our knowledge of DHS’ organization gained during our work to make comments and suggestions that we hope will be useful to you.



USCIS's written response to our comments and recommendations 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' and USCIS's management, the DHS Office of Inspector General, the U.S. Office of Management and Budget, the U.S. Congress, and the Government Accountability Office, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

U.S. Citizenship and Immigration Services
Table of Financial Management Comments
September 30, 2010

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

Comment Reference	Subject	Page(s)
FMC 10-01	Inadequate and/or Inconsistent Supervisory Review of Payroll Transactions	2
FMC 10-02	Inadequate and/or Inconsistent Supervisory Review of Journal Entries	2
FMC 10-03	Improper Expensing of Capitalized Equipment	2
FMC 10-04	Deficiencies in the Deferred Revenue Quality Assurance Process and the Internal Control Environment	3
FMC 10-05	Inadequate Supervisory Review of the Intra-Departmental Eliminations Reconciliation	4
FMC 10-06	Untimely Capitalization of Leasehold Improvement Costs	4
FMC 10-07	Inadequate and/or Inconsistent Supervisory Review of Personnel Actions	5

APPENDIX

Appendix	Subject	Page(s)
A	Crosswalk – Financial Management Comments to Active NFRs	6
B	Status of Prior Year NFRs	7
C	Management Response	8

U.S. Citizenship and Immigration Services
Financial Management Comments
September 30, 2010

FMC 10-01 – Inadequate and/or Inconsistent Supervisory Review of Payroll Transactions (NFR No. USCIS 10-01)

We tested internal controls over human resources functions at USCIS by selecting a random sample of 45 employees receiving payroll checks in pay periods from October 1, 2009 – June 30, 2010. For each employee/ pay period selected, we requested the System Time and Attendance Reporting (STAR) Report, timesheet and relevant documentation supporting the timesheet (including requests for overtime/ leave, etc.). We noted the following:

- Two instances in which a timesheet was submitted; however, no supervisor approval was evident.
- One instance, related to one of the timesheets noted above, in which leave hours were recorded on the timesheet, however no authorization was evident.

Recommendations:

We recommend that USCIS:

- Provide employees, timekeepers and supervisors with additional training, resources and tools to increase their knowledge of the timekeeping process and the importance of ensuring that each step in the process must be accomplished accurately and timely.
- Request that timekeepers conduct monthly self-audits to assure time keeping documents are accurate and complete.

FMC 10-02 – Inadequate and/or Inconsistent Supervisory Review of Journal Entries (JEs) (NFR No. USCIS 10-02)

We judgmentally selected a sample of 45 JEs posted from October 1, 2009 – June 30, 2010. For each JE selected, KPMG obtained the General Journal Header Information sheet and relevant documentation supporting the amounts posted. We noted that one of the JE tested did not have evidence of approval indicated by initials on the General Journal Header Information sheet. However, we verified that the JE was approved in the Federal Financial Management System (FFMS).

Recommendation:

We recommend that USCIS remind senior accountants, responsible for reviewing and approving free-form JEs, of the control requirements to document the approval of entry both in FFMS and by initialing the General Journal Header Information Sheet.

FMC 10-03 – Improper Expensing of Capitalized Equipment (NFR No. USCIS 10-03)

During our interim disbursements test work as of May 31, 2010, we noted that six equipment items in the amount of \$693,000 were improperly expensed.

Recommendation:

We recommend that the USCIS Office of Administration and the Office of the Chief Financial Officer coordinate with the Office of the Chief Information Officer and the USCIS Contracting Office to establish policies and internal controls that will ensure that capitalized property transactions are accurately tracked and recorded in the Asset Management System as well as FFMS.

U.S. Citizenship and Immigration Services
Financial Management Comments
September 30, 2010

FMC 10-04 – Deficiencies in the Deferred Revenue Quality Assurance Process and the Internal Control Environment (NFR No. USCIS 10-04)

We conducted site visits at various District Offices, Service Centers and the National Benefits Center (NBC) in May 2010 (floor-to-list testing). We noted that the California Service Center selected a sample of files from C3 data to conduct the file review; this is a list-to-floor procedure and is not compliant with the floor-to-list operating procedures established by the Quality Management Branch (QMB).

KPMG replicated management's floor-to-list testing of 680 applications for the third quarter of fiscal year (FY) 2010 and noted the following:

- Error rates indicative of a deficiency in internal control in the application adjudication process are identified through the USCIS quality assurance (QA) process and exist on USCIS's largest application tracking systems: CLAIMS 3 and CLAIMS 4.
- The deferred revenue QA process identifies discrepancies in the status of applications where errors between the system data and the hard copy application exist. Although consideration of the faulty data is included in the calculation of deferred revenue, the inclusion of faulty data presents an environment where the conditions in this NFR would be present in subsequent QA testing.
- USCIS continues to utilize multiple, non-integrated systems for processing immigration and naturalization applications.
- There were 23 instances where USCIS sample results differed from our results. We identified twenty overstatement errors and three understatement errors that were not identified by USCIS. The overstatements represented items that were listed as pending however we determined that they were adjudicated (or administratively closed) prior to May 20, 2010 and therefore should have been included in the error rate. The understatements identified represented items that were listed as not pending and were improperly included in the error rate as we noted that they were not adjudicated prior to May 20, 2010

Recommendations:

We recommend that USCIS:

- Identify system-wide errors in application status and administratively close applications that should no longer be considered pending.
- Establish agency-wide criteria, operating controls, and oversight for the timely update of application status in case tracking systems, CLAIMS 3, CLAIMS 4, and the Marriage Fraud Assessment System (MFAS).
- Centralize the review of the quarterly QA results reported by field offices and service centers prior to the use of the results in the determination of error rates.

U.S. Citizenship and Immigration Services
Financial Management Comments
September 30, 2010

FMC 10-05 – Inadequate Supervisory Review of the Intra-Departmental Eliminations Reconciliation (NFR No. USCIS 10-05)

We identified the following discrepancies during our review of the September intra-departmental reconciliation:

- The relationship thresholds reported for Federal Law Enforcement Training Center (FLETC) and U.S. Immigration and Customs Enforcement (ICE) on the Unadjusted Treasury Information Executive Repository (TIER) USCIS Eliminations Worksheet do not agree to the materiality threshold provided by DHS Office of Financial Management (OFM).
- The Adjusted TIER USCIS Eliminations Worksheet is mathematically incorrect due to incorrect formulas in the excel spreadsheet for various “total” amounts relating to Management Directorate (MGT), Customs and Border Protection (CBP), National Protection and Programs Directorate (NPPD), FLETC and ICE trading partner balances.

As a result of our review, USCIS revised the Eliminations Reconciliation several times. We noted that despite the mathematical inaccuracies, the eliminating entries were properly prepared and the correct overall balances were reported on the Trading Partner Reconciliation Analysis Checklist. USCIS used individual line items as opposed to the “total” amounts reported on the worksheet to prepare the checklist, and as a result the balances were not misstated.

Recommendations:

We recommend that USCIS:

- Revise the summary worksheet to highlight the unadjusted and adjusted reconciliation differences, the change from unadjusted to adjusted differences, and compliance with the materiality threshold.
- Implement policies to ensure managers review the presentation of the summary worksheet to ensure that they understand the information presented.
- Revise standard operating procedures to reflect that eliminations adjustments are developed as a result of the review of difference balances per category as indicated by the initial TIER Eliminations Report and are not based on the summary schedule used for management review.

FMC 10-06 – Untimely Capitalization of Leasehold Improvement Costs (NFR No. USCIS 10-06)

As a result of a review of leasehold improvement projects, USCIS recorded \$10.7 million in prior period adjustments to the leasehold improvements balance in the 2nd quarter of FY 2010.

Recommendation:

We recommend that USCIS continues to follow their current procedures for capitalization of leasehold improvement projects, and ensure that costs are capitalized in the proper accounting period.

U.S. Citizenship and Immigration Services
Financial Management Comments
September 30, 2010

FMC 10-07 – Inadequate and/or Inconsistent Supervisory Review of Personnel Actions (NFR No. USCIS 10-07)

We tested internal controls over the review and approval of a sample of 45 SF-52s as of September 30, 2010 and found 16 instances where a funding official did not approve the SF-52. We noted that there was no sign-off on the SF-52 by the authorizing official to evidence that a USCIS employee properly reviewed the SF-52 and verified that sufficient funding was available for the position.

Recommendation:

We recommend that the USCIS Office of Human Capital and Training establish procedures to ensure that the requestor, authorizer and funding manager sign recruitment SF-52s. The routing of SF-52s in the payroll system should be changed to ensure the SF-52s are routed through the funding manager; thereby ensuring there are three signatures on each recruitment SF-52.

U.S. Citizenship and Immigration Services
Crosswalk - Financial Management Comments to NFRs
 September 30, 2010

NFR No.	Description	Disposition ¹			
		IAR			FMC
		MW	SD	NC	No.
10-01	Inadequate and/or Inconsistent Supervisory Review of Payroll Transactions				10-01
10-02	Inadequate and/or Inconsistent Supervisory Review of General Journal Entries				10-02
10-03	Improper Expensing of Capitalized Equipment				10-03
10-04	Deficiencies in the Deferred Revenue Quality Assurance Process and the Internal Control Environment				10-04
10-05	Inadequate Supervisory Review of the Intra-Departmental Eliminations Reconciliation				10-05
10-06	Untimely Capitalization of Leasehold Improvement Costs				10-06
10-07	Inadequate and/or Inconsistent Supervisory Review of Personnel Actions				10-07

¹Disposition Legend:

IAR	Independent Auditors' Report dated November 12, 2010
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 Noncompliance 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 Management and Reporting
B	Information Technology Controls and System Functionality
C	Fund Balance with Treasury
D	Property, Plant, and Equipment
E	Actuarial and Other Liabilities
F	Budgetary Accounting
G	Other Entity-Level Controls
H	Custodial Revenue and Drawback
I	<i>Federal Managers' Financial Integrity Act of 1982 (FMFIA)</i> , and Laws and Regulations Supporting OMB Circular No. A-50, <i>Audit Followup</i> , as revised
J	<i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i>
K	<i>Single Audit Act Amendments of 1996</i>
L	<i>Chief Financial Officers Act of 1990 (CFO Act)</i>
M	<i>Antideficiency Act</i> , as amended (ADA)
N	<i>Government Performance and Results Act of 1993 (GPRA)</i>

U.S. Citizenship and Immigration Services
Status of Prior Year NFRs
 September 30, 2010

NFR No.	Description	Disposition ¹	
		Closed ²	Repeat (2010 NFR No.)
09-01	<i>Number not used</i>		Not applicable
09-02	<i>Number not used</i>		Not applicable
09-03	<i>Number not used</i>		Not applicable
09-04	Untimely Update of Adjudication Status within CLAIMS 3 and CLAIMS 4	X	
09-05	Applications Included in Deferred Revenue at Incorrect Fee Amounts	X	
09-06	Obligations are Not Being Recorded in Federal Financial Management System (FFMS) in a Timely Manner	X	
09-07	Discrepancies with the Leave Balances Between the National Finance Center Records and System Time and Attendance Reporting Reports are not Being Researched and Resolved Timely	X	
09-08	<i>Number not used</i>		Not applicable
09-09	<i>Number not used</i>		Not applicable
09-10	<i>Number not used</i>		Not applicable
09-11	<i>Number not used</i>		Not applicable
09-12	Inadequate Internal Controls over the Reporting of Fixed Assets	X	
09-13	Deficiencies in the Deferred Revenue Quality Assurance Process and the Internal Control Environment		USCIS 10-04
09-14	Inadequate and/or Inconsistent Supervisory Review of Payroll Transactions		USCIS 10-01
09-15	<i>Number not used</i>		Not applicable
09-16	Issues Involving the Completeness, Existence and Accuracy of Capitalized Equipment	X	
09-17	USCIS is Improperly Including Executive Office for Immigration Review/'Relief From Deportation' Applications in the Deferred Revenue Query Results	X	
09-18	Compliance with Office of Management and Budget Guidance for Thrift Savings Plan Deductions	X	
09-19	Accounts Payable Transactions are Not Being Recorded in FFMS	X	
09-20	Inadequate and/or Inconsistent Supervisor Review of Personnel Actions		USCIS 10-07
09-21	Aged Obligations are not Timely Reviewed to Ensure the Validity and Accuracy of the Undelivered Orders balance	X	
09-22	Insufficient Support for the Determination of Parking Withholdings	X	
09-23	Disbursements are Being Charged to an Improper Sub-object Class	X	

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, 2010, 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, 2010. In addition, we were engaged to follow up on the status of all active NFRs that supported significant deficiencies reported in KPMG's *Independent Auditors' Report* dated November 13, 2009.

² NFRs were closed either through remediation of the findings or that we were not engaged to follow up on active NFRs that did not support significant deficiencies reported in KPMG's *Independent Auditors' Report* dated November 13, 2009.

U.S. Citizenship and Immigration Services
*Management Response to the
Management Letter*

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

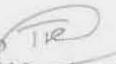


U.S. Citizenship
and Immigration
Services

March 1, 2011

Memorandum

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

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

SUBJECT: Management Response to U.S. Citizenship and Immigration Services'
Management Letter for FY 2010 DHS Consolidated Financial Statement Audit

We would like to thank you for the opportunity to review and comment on the draft report: *U.S. Citizenship and Immigration Services' Management Letter for FY 2010 DHS Consolidated Financial Statement Audit*. The United States Citizenship and Immigration Services (USCIS) concurs with the draft report as presented.

We are committed to resolving all control deficiencies and weaknesses identified in the audit and have prepared Mission Action Plans to resolve and improve our internal controls over USCIS financial information.

We appreciate the cooperation and respect that your staff provided during the course of the audit and look forward to continuing our strong working relationship with your office.

www.uscis.gov

Report Distribution

Department of Homeland Security

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

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees, as appropriate



ADDITIONAL INFORMATION AND COPIES

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

OIG HOTLINE

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

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

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