

DEPARTMENT OF HOMELAND SECURITY
Office of Inspector General

Management Letter
For The FY 2004 DHS
Financial Statement Audit



Office of Audits

OIG-05-33

August 2005



**Homeland
Security**

Preface

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

This report presents the management letter for DHS' FY 2004 financial statement audit. It contains observations and recommendations related to internal control that were not required to be reported in the financial statement audit report. The independent accounting firm KPMG LLP (KPMG) performed the audit of DHS' FY 2004 financial statements and prepared this management letter. Material weaknesses and other reportable conditions were reported, as required, in KPMG's *Independent Auditor's Report*, dated November 8, 2004, that was included in the FY 2004 DHS *Performance and Accountability Report*. KPMG is responsible for the attached management letter dated December 15, 2004, and the conclusions expressed in it. We do not express opinions on DHS' financial statements or internal control or conclusion on compliance with laws and regulations.

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

A handwritten signature in black ink that reads "Richard L. Skinner".

Richard L. Skinner
Inspector General



KPMG LLP
2001 M Street, NW
Washington, DC 20036

December 15, 2004

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

Ladies and Gentlemen:

We were engaged to audit the consolidated balance sheet of the U.S. Department of Homeland Security (DHS) as of September 30, 2004, and the related consolidated statements of net cost, changes in net position, financing, and custodial activity, and combined statement of budgetary resources (hereinafter referred to as "financial statements"), for the year then ended. Because of matters discussed in our *Independent Auditors' Report*, dated November 8, 2004, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements.

In connection with our fiscal year 2004 engagement, we were also engaged to consider DHS' internal control over financial reporting and to test DHS' compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these financial statements. Our procedures may not include examining the effectiveness of internal control and do not provide assurance on internal control. We have not considered internal control since the date of our report.

We noted certain matters involving internal control and other operational matters that are summarized in the Table of Financial Management Comments on the next page, and presented for your consideration in Sections I – VIII of this letter. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. These comments are in addition to the reportable conditions presented in our *Independent Auditors' Report*, included in the FY 2004 DHS *Performance and Accountability Report*, dated November 18, 2004. A description of each internal control finding, and its disposition, as either a reportable condition or a financial management comment is provided in Appendix A. Our findings related to information technology systems have been presented in a separate letter to the Office of Inspector General and the DHS Chief Information Officer dated December 15, 2004.

As described above, the scope of our work was not sufficient to express an opinion on the financial statements of DHS as of and for the year ended September 30, 2004, and accordingly, other matters involving internal control over financial reporting may have been identified and reported had we been able to perform all procedures necessary to express an opinion. We aim, however, to use our knowledge of DHS' organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

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

Very truly yours,

KPMG LLP

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I. CUSTOMS AND BORDER PROTECTION (CBP)

CBP – FMC 4-01 – Programming and Configuration of AIMS (NFR No. 04-01)

CBP's general ledger system, the Asset Information Management System (AIMS), is not configured to properly record certain transactions, and it does not account for certain other transactions when they occur, for example:

- AIMS is programmed to record all transactions as appropriated transactions, even when they are not; e.g., reimbursable transactions.
- Limitations of AIMS prevent CBP from recording liabilities and liquidating obligations upon receipt of goods or services as required under generally accepted accounting principles.

These and other conditions require that numerous adjusting journal entries be made in AIMS during the financial statement closing and reporting process.

Recommendation:

We recommend that CBP improve the functionality of its IT systems to ensure that transactions are recorded timely and with fewer manual processes, thereby improving internal control and reliability of financial information. CBP should also comply with applicable sections of OMB Circular A-127, *Financial Management Systems* and Joint Financial Management Improvement Program guidance by properly accounting for all transactions in the general ledger as they occur.

CBP – FMC 4-02 – Reconciliation of Capitalized Assets (NFR No. 04-02)

Some assets listed in CPB's property, plant and equipment (PP&E) subsidiary ledger do not have corresponding asset records in the general ledger, which complicates the tracking of assets and increases the likelihood of error in the financial statements. Also, not all capitalized assets are identified with proper tracking information at the time of purchase.

Recommendation:

We recommend that CBP continue its efforts to research, identify, and log corresponding asset numbers in both the subsidiary and general ledger and implement controls to ensure that all capitalized assets are identified with proper tracking information at the time of purchase.

CBP – FMC 4-03 – Lack of Segregation of Duties and Management Review in Processing Personnel Action Forms (NFR No. 04-03)

We noted a lack of segregation of duties in the review, authorization, and recording of personnel action forms (SF-50s and SF-52s) processed by CBP on behalf of Immigration and Customs Enforcement (ICE) and Citizenship and Immigration Services (CIS). The same payroll accountant who inputs the data into the payroll system is also responsible for reviewing the forms and can alter the information without gaining further approval from the payroll specialist.

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Recommendations:

We recommend that CBP's Human Resource Division adopt the same process and procedures for personnel actions made on behalf of CIS and ICE personnel, as it uses for CBP personnel. Specifically, responsibility for review, authorization and recording of SF-50's and SF-52's processed by CBP for CIS and ICE should be segregated. Access controls over the Electronic System for Personnel (ESP) should be improved to prevent alteration of the forms for CIS and ICE personnel after they have been reviewed and approved by the payroll specialist.

Additionally, we recommend that the Human Resources Division of both ICE and CIS monitor, as a compensating control, the SF-50s and the SF-52s forms sent to CBP's payroll office by CBP's Human Resource Division, to ensure that the requests are processed appropriately, until CBP implements improved controls over data entry of personnel action forms.

CBP – FMC 4-04 – Verification of Check Proof Listing and Certification of Payments (NFR No. 04-04)

CBP policy requires a drawback chief to review and certify, with automated signature, the Check Proof Listing (CPL) of accelerated drawback payments, to ensure that a technician has reviewed the payee and other payment information related to the drawback claim package. The Automated Commercial System (ACS), used by CBP to account for receipt and disbursement of taxes and duties, automatically identifies accelerated payments as being certified by the Customs Port Director regardless of whether any review actually occurred. The Chief/Supervisor verifies that the technician initialed the CPL and then certifies the payments in ACS.

Recommendation:

We recommend that CBP improve the overall design of ACS by programming the system so that payments cannot be issued without the express authorization of management.

CBP – FMC 4-05 – Deficiencies in the Internal Controls over the Drawback Process and Supplemental Duty Bills at the New York Drawback Office Resulting from the Events of September 11, 2001 (NFR No. 04-05 and 04-10)

All hard copy documentation relating to CBP drawback claims filed at the New York, NY drawback office was stored onsite in the World Trade Center and was destroyed on September 11, 2001. In addition, documentation supporting supplemental duty invoices, including the original entry summary packet and the calculation of amount due, are no longer available. As a result, to compensate for the loss of information, CBP revised the selectivity and full desk review procedures in the New York office. However, process weaknesses remain that could affect the accuracy of drawback claims paid by CBP and supplemental duty invoices related to pre-September 11, 2001 import entries filed at the World Trade Center.

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Recommendation:

We recommend that CBP implement additional control procedures over the processing of pre-9/11 drawback claims and supplemental duty invoices to further mitigate the likelihood of error that exists due to the lack of hardcopy supporting documentation.

CBP – FMC 4-06 – Monitoring of Bonded Warehouses and Foreign Trade Zones (*NFR No. 04-07*)

CBP lacks finalized policies over the monitoring of import entries at bonded warehouses and foreign trade zones. During FY 2004, cancelled directives (3260-016 *Planning and Conduct of Warehouse Spot Checks* and 3260-027 *Planning and Conduct of Foreign Trade Zone Spot Checks*) and the draft *Compliance Review Handbooks for Bonded Warehouses and Foreign Trade Zones*, provided the most current guidance to field personnel. In addition, we noted that in FY 2004 control risk assessments, spot checks, and compliance reviews for bonded warehouse and foreign trade zone entries were substantially curtailed or in some cases were not conducted.

Recommendation:

We recommend that CBP finalize and issue policies regarding bonded warehouse and foreign trade zone risk assessments, spot checks, and compliance reviews. Policies should include a standard national checklist to help inspectors perform thorough reviews and measure compliance rates and to document risk assessments, spot checks, and compliance reviews consistently. In addition, this policy should include corrective action plans that are based on the inspection results.

CBP – FMC 4-08 – Unable To Support Amounts Due CBP from Supplemental Duty Bills (*NFR No. 04-09*)

CBP was unable to provide documentation, specifically, the original entry summary packet, and evidence of a calculation to derive the amount due, to support the accuracy of eight supplemental duty invoices selected in a sample of 35 items.

Recommendation:

We recommend that port offices use a calculation worksheet that clearly documents the calculation of the amount due CBP and maintain all related documentation.

CBP – FMC 4-09 – Automated Commercial System (ACS) Deficiencies Related to Accounts Receivable and CBP's Ability to Monitor Effectively Collection Actions (*NFR No. 04-11*)

The ACS system does not provide summary information of the total unpaid assessments for duties, taxes, and fees by individual importer. Also, the ACS system is unable to produce periodic management information on outstanding receivables, the age of receivables, or other data necessary for managers to effectively monitor collection actions. The lack of detailed information complicates tracking of outstanding receivables and recording of the allowance for doubtful accounts and increases the likelihood of non-collection and/or error in the financial statements.

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Recommendation:

We recommend that CBP implement a “customer-based” accounts receivable subsidiary ledger that interfaces with the general ledger system.

CBP – FMC 4-10 – Prohibited Seized Property (NFR No. 04-13)

We noted the following conditions, during our observation of inventory, that signify deficiencies in controls related to seized property:

- A location in the southwest was required to re-perform their inventory of prohibited seized property after the deadline due to a miscommunication of instructions. Also, several personnel who performed the physical counts at this location were new to the process and did not have a thorough understanding of the procedures to be performed, which increased the likelihood of error.
- At one northeast location, the allotted space in the seized property vault was inadequate to properly segregate and store all seized property, and the vault did not have security camera(s) that covered the entire area of storage. In addition, we noted similar physical security weaknesses at one northwest “contractor” location.

Recommendations:

We recommend the following to improve controls over prohibited seized property:

- a. Ensure that adequate instructions and sufficient training are provided to all personnel who conduct inventory counts; and
- b. Improve physical security and storage space at the specific locations noted above.

CBP – FMC 4-11 – Insufficient Retention Period for Documents that Support Drawback Claims (NFR No. 04-14)

CBP was unable to provide documentation to support all drawback claims selected for audit testwork, including the underlying consumption entries and their related drawback claims, due to inconsistencies in document retention policies in various drawback offices.

Recommendation:

We recommend that CBP review and update its document retention policies for drawback claims and communicate the revised requirements to each of the port directors for implementation.

CBP – FMC 4-12 – Codified Policy and Procedures for Injured Domestic Industries (NFR No. 04-17)

CBP has not formally codified and distributed its policies and procedures over the processing and recording of Injured Domestic Industry (IDI) collections and claims, which could lead to inconsistencies in accounting and financial statement presentation.

Recommendation:

We recommend that CBP formally adopt its policies and procedures that provide accounting and control guidance for processing of IDI collections and claims.

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II. EMERGENCY PREPAREDNESS AND RESPONSE (EPR)**EPR – FMC 4-01 – Region IX Financial Management of Grants (NFR No. 04-02)**

During our site visit to Region IX, we noted the following:

- Two *Request for Federal Assistance* (SF-424s) forms were completed incorrectly and one was an outdated version of the form.
- For two grants, the percentage of funds paid by the state, as reported on the Financial Status Report (FSR), was less than the percentage required by the EPR/State agreement.
- For three grants, the non-federal portion of the grant funding, or cost-share, was not properly recorded on the FSR.
- For one grant, no cost share analysis was performed for the program.
- For two grants, the file did not contain evidence of a Presidential declaration authorizing the disaster.
- A fire suppression grant file did not include the Fire Management Assistance Determination of Approval letter.
- For four grants, we noted differences when recalculating the obligated amount per the Obligation Transaction report and the amount reported on the March 2004 reconciliation for the Integrated Financial Management Information System (IFMIS) obligations.
- The amount of obligations shown as remaining in the Automated Disaster Assistance Management System (ADAMS) Funding Estimate Report was not reconciled to the amount shown as the unliquidated obligation in IFMIS.

Recommendations:

We recommend that:

- a. Regional personnel ensure that all grant identifying information and modifications are maintained in the grant file and that any SF-424s and correspondence received from the grantee is reviewed for consistency with the issued guidance;
- b. Headquarters and regions ensure that grant recipients are properly trained on the completion of the Financial Status Reports. Additionally, EPR personnel should perform reviews of the FSR to ensure that the cost share is properly computed, recorded, and applied to the grant;
- c. The region develop and maintain a checklist for each disaster program to ensure that all documents required to comply with laws and regulations are maintained, including the Presidential Declaration and the Fire Management Assistance Determination of Approval letter; and
- d. The region improve reconciliation procedures of grant obligations, including the prompt investigation of any differences noted when comparing the Obligation Transaction report to the IFMIS obligations, and the prompt reconciliation of ADAMS to IFMIS.

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EPR – FMC 4-02 – Region IV Financial Management of Grants (NFR No. 04-03)

During our site visit to Region IV, we noted the following:

- Region personnel did not notify grantees, for those grants tested, that the Application for Federal Assistance had been modified, resulting in changes in the DHS Catalog of Federal Domestic Assistance (CFDA) numbers to be used by the grantee.
- The grant file for one disaster did not contain the SF 424, and the documentation could not be located.
- For another disaster, the grant amount shown in the HHS Smartlink supporting documentation did not agree to the amount in the related reconciliation provided by the region.

Recommendations:

We recommend that:

- a. Headquarters and regional personnel ensure that all grant identifying information and modifications, including CFDA numbers, are communicated to the grant recipient timely and that all SF-424s are maintained in the appropriate grant file; and
- b. The region improve review procedures over the reconciliations performed by the grant management specialist to ensure that necessary documentation is maintained in the grant files, and all balances are properly reconciled to and supported by their respective system reports.

EPR – FMC 4-03 – Region III Financial Management of Grants (NFR No. 04-04)

During our site visit to Region III, we noted the following:

- Instances where grant reconciliations were not prepared in accordance with EPR's Standard Operating Procedure (SOP) entitled *Reconciling Grant Programs* and did not include adequate documentation of reconciling differences.
- Some grant files did not contain proper documentation to support the grant. Specifically, we noted that for two grant files, either the SF-424 or evidence of the Presidential Declaration authorizing the disaster was not maintained in the grant file. In addition, for four grants tested, the outdated version of the SF-424 and the old CFDA numbers were used, shortly after the effective date for the new form and numbers.

Recommendations:

We recommend that:

- a. Grant management specialists receive additional training, guidance, and oversight to ensure that reconciliations are performed in accordance with the SOP referenced above and as of the proper date. In addition, we suggest that the region consider improving the format and presentation of the reconciliations between its principal financial systems (IFMIS, ADAMS/NEMIS, and Smartlink) and the FSR to improve the effectiveness of the process; and
- b. The region develop and maintain a checklist for each disaster program to ensure that all documents required to comply with laws and regulations are maintained,

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including evidence of the Presidential Declaration, current SF-424s, current grant identifying information (e.g., new DHS CFDA numbers), and all modifications.

EPR – FMC 4-04 – Region VII Financial Management of Grants (*NFR No. 04-05*)

During our site visit to Region VII, we noted the following:

- The obligated amount in the reconciliation did not agree with the supporting IFMIS, NEMIS, and Smartlink documents for one disaster.
- The FSR was reconciled with the above grant financial systems each quarter, but not according to the method prescribed by the SOP.
- The SF-424s, maintained in the grant files, did not identify the CFDA numbers for two disasters.

Recommendations:

We recommend that Region VII:

- a. Implement review procedures over the reconciliations performed by the financial management specialist to ensure that all balances are properly supported by respective system reports;
- b. Perform reconciliations between the FSR and the financial systems according to the method prescribed in the SOP; and
- c. Improve review procedures over the SF-424s submitted by the States to ensure that they contain all required information.

EPR – FMC 4-05 – Findings Related to Review of the Suspense Fund (*NFR No. 04-06*)

During the year, the suspense fund was allowed to accumulate to a significant balance, e.g., totaling \$36 million at June 30, 2004. We also noted that approximately 40 percent of the suspense fund balance at that time consisted of old unreconciled transactions dating back to FY 2002 and prior years, and some amounts were related to cancelled appropriations.

Recommendation:

We recommend that EPR improve suspense fund reconciliation procedures to investigate and clear all transactions held in suspense by posting balances to the correct fund and account within a 30 to 60 day timeframe.

EPR – FMC 4-06 – Lack of Monthly Reconciliations of Fund Balance With Treasury Accounts to the FMS-6654, Undisbursed Appropriation Account Trial Balance (*NFR No. 04-27*)

EPR does not document its reconciliation of its Fund Balance with Treasury (FBWT) accounts to the Treasury report FMS-6654 closing balance during the monthly FBWT reconciliation process.

Recommendation:

We recommend that EPR improve its monthly FBWT reconciliation procedures to include the documentation of the reconciliation of its FBWT accounts to the closing balance shown on the Treasury report FMS-6654.

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EPR – FMC 4-07 – Timeliness in Resolution of Differences Related to FBWT Reconciliations for Certain Funds (NFR No. 04-31)

We noted that the December 31, 2003, FBWT reconciliations performed by EPR included three funds with reconciling items that were not resolved within three months as recommended by the Treasury Financial Management Service (FMS) guidance.

Recommendation:

We recommend that EPR improve its FBWT reconciliation procedures to ensure that differences are reconciled in a timely manner, e.g., 30 to 60 days.

EPR – FMC 4-08 – Improper Temporary Accruals Used for FBWT Reconciliations (NFR No. 04-33)

We noted that the Financial and Acquisition Management Division was posting inaccurate “temporary” adjustments to IFMIS to clear unreconciled differences, related to the FBWT reconciliations, so that IFMIS balances would agree to the Treasury report FMS-6653, *Undisbursed Appropriation Account Ledger*, prior to the TIER¹ and FACTS II² submissions.

Recommendation:

We recommend that EPR improve FBWT reconciliation procedures to reduce the need for temporary adjustments for unreconciled differences, and ensure that reconciliations are performed timely to improve the reliability to TIER and FACTS II submissions.

EPR – FMC 4-09 – Segregation of Duties Related to Preparation and Approval of Journal Vouchers (NFR No. 04-38)

We noted that an individual had the ability to prepare and approve his/her own journal vouchers. Upon further inquiry, we noted that 16 EPR personnel in total had this preparation and approval authority for posting journal vouchers to IFMIS.

Recommendation:

We recommend that EPR review the system access configuration in IFMIS and implement procedures to improve segregation of duties for preparing and authorizing journal vouchers posted to IFMIS. In addition, the list of individuals with the ability to approve journal vouchers should be reviewed by EPR to ensure that the number of approvers is appropriate given the needs of the organization and the nature of the journal vouchers.

¹ TIER is the system to which DHS bureaus submit their financial data for consolidation into DHS' financial statements.

² FACTS II is the acronym for the Federal Agencies' Centralized Trial-Balance System II.

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EPR – FMC 4-10 – Mission Assignments, Interagency Agreements, and Flood Insurance
(NFR No. 04-42)

We noted the following conditions related to mission assignments, interagency agreements, and flood insurance:

- Some regional personnel were not able to provide in a timely manner documentation supporting undelivered orders for mission assignments and interagency agreements that we selected for testwork.
- The Bureau and Statistical Agent vendor for the National Flood Insurance Program (NFIP) did not provide final NFIP financial statements to EPR until November 5, 2004, nine days after the final EPR TIER financial data was to have been submitted on October 27, 2004. As a result, EPR had to make material estimates of NFIP balances for year-end financial statement purposes.

Recommendations:

We recommend that:

- a. EPR improve its document retention procedures so that supporting documentation related to undelivered orders for mission assignments and interagency agreements is adequately organized and available for timely review; and
- b. EPR arrange for more timely receipt of the final NFIP financial data to eliminate the need to make a potentially significant financial statement estimate for NFIP expenses at year-end.

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III. IMMIGRATION AND CUSTOMS ENFORCEMENT (ICE)

ICE – FMC 4-01 – Payroll Interface Errors and Reclassifications for ICE, CIS, and the Component Units (NFR No. 04-11)

ICE made an unusually high number of manual reclassifications and error corrections for personnel and payroll data during FY 2004. The reclassifications were caused primarily by the reorganization of personnel and mission activities within and between ICE, CIS, and CBP, and the transition to ICE of accounting operations for other DHS bureaus, specifically, Management, Science and Technology, Border and Transportation Headquarters, and Information Analysis and Infrastructure Protection (hereinafter referred to as the component units).

During our testwork, we noted that many employees were coded to the wrong bureaus, thus distorting payroll expenses. Further, better coordination with CBP needs to be established to ensure the correct coding of employees. The volume of personnel reclassifications created a backlog that was not cleared in a timely manner each month.

Recommendations:

We recommend that ICE:

- a. Systematically review its payroll records, in conjunction with CIS, CBP, and the component units, to identify all employees who are coded to the wrong bureaus, and make the appropriate corrections in the personnel and payroll databases to properly classify personnel and related expenses; and
- b. Identify additional resources to assist in the processing and clearance of the interface error/edit corrections, to act as liaison with CBP personnel offices, and to act as liaison with timekeepers to proactively eliminate payroll coding errors as they arise.

ICE – FMC 4-02 – Disbursement of Payments to Vendors (NFR No. 04-28)

We noted that ICE did not always pay its vendors on time. Four invoices out of a sample of sixty-five, totaling \$1.5 million, were not paid within 30 days after receipt of a proper invoice, in accordance with the Prompt Payment Act, although appropriate penalties and interest were paid. Payment delays were caused, in some cases, by a lack of formal policies in field offices describing the invoice approval and submission process.

Recommendations:

We recommend that ICE:

- a. Improve its procedures to ensure that disbursements to vendors are made in a timeframe that will ensure compliance with the Prompt Payment Act and will avoid penalties and interest; and
- b. Issue formal policies and procedures to field offices instructing them on the requirements for timely review, approval, and submission of invoices to the disbursing offices.

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ICE – FMC 4-03 – Processing a Request for Personnel Action (*NFR No. 04-32*)

We noted a lack of segregation of duties in the review, authorization, and recording of personnel action forms (SF-50s and SF-52s) processed by CBP on behalf of ICE (also see CBP – FMC 4-03).

Recommendation:

In addition to the recommendations made in our comment CBP – FMC 4-03, we recommend that the Human Resources Division of ICE monitor, as a compensating control, the SF-50s and the SF-52s sent to the payroll office by CBP, to ensure that the requests are processed appropriately until CBP implements improved controls over personnel action forms.

ICE – FMC 4-04 – Use of the Suspense Account (*NFR No. 04-37*)

ICE Headquarters' Accounting Operations Branch has used suspense accounts as a holding account for unreconciled transactions shown on the Treasury report FMS 6652, *Statement of Differences*. The transactions have been recorded in this manner to temporarily eliminate differences between Treasury and ICE's FBWT accounts, and allow time to investigate differences. However, we noted that balances held in suspense were frequently several months old and ICE lacks a reliable process to clear suspense balances in a timely manner.

Recommendation:

We recommend that ICE improve its FBWT reconciliation procedures to reduce the need for temporary adjustments to suspense accounts for unreconciled differences with Treasury, and ensure that suspense balances are cleared timely to improve the reliability of TIER and FACTS II submissions.

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IV. LIMITED SCOPE BUREAUS (LTD)**FAM - FMC 4-01 – Human Resources (NFR No.04-01)**

We noted that the Federal Air Marshals' (FAM) human resource department does not always accurately record personnel action requests. In addition, FAM lacks policies that would help ensure that all personnel files consist of accurate and complete information and require sufficient supervisory reviews for accuracy and completeness of personnel data.

Recommendation:

We recommend that the FAM develop and implement written policies that provide guidance on how to record personnel action requests and establish appropriate documentation retention and supervisory review requirements.

FLETC – FMC 4-02 – Lease Classification (NFR No. CONS 04-11)

The Federal Law Enforcement Training Center (FLETC) has requested that OMB review three 20-year non-cancelable leases for dormitory buildings, and assist with the determination of their appropriate classification as either operating or capital, and determine if FLETC had the authority to enter into these agreements. Until the OMB investigation is complete, FLETC is reporting a liability related to these leases in the amount of approximately \$60 million as an unfunded contingent liability in a multi-year appropriation account, which is in accordance with generally accepted accounting principles.

Recommendation:

We recommend that FLETC, with the assistance of DHS management, work with OMB to resolve the status of the leases in FY 2005 and document their conclusion for auditor review and permanent recordation.

FPS – FMC 4-03 – Federal Protective Service's (FPS) Financial Data (NFR No. CONS 04-10)

DHS relies on another Federal agency to perform accounting services for FPS and submit TIER data on a monthly basis. However, the agency accounting for FPS transactions has been unable to provide timely information throughout FY 2004, contributing to delays in the DHS consolidated monthly closing process.

Recommendations:

We recommend that DHS:

- a. Consider moving the accounting for FPS in-house to prevent reliance on another Federal agency for accounting services, or
- b. Negotiate an agreement with the other Federal agency that would result in receipt of timely FPS financial data on a monthly basis.

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

SLGCP – FMC 4-01 – Financial Reporting Process and Property (*NFR No. 04-01*)

SLGCP relies on the Center for Domestic Preparedness (CDP) to provide financial accounting services that affect the SLGCP general ledger and monthly TIER submission. We noted that the SLGCP lacked a formal agreement with CDP that describes in detail the scope and timing of services, including month end reports, to be provided by CDP to SLGCP's contracted accounting staff. In addition, we noted that SLGCP does not routinely monitor the quality of CDP work. This situation has caused miscommunication between SLGCP's contracted accounting staff and CDP and delays in recording personal property acquisitions and related depreciation, and affects the reliability of periodic financial information reported for DHS consolidation purposes.

Recommendation:

We recommend that SLGCP develop and implement formal procedures to describe the extent and timing of accounting services to be provided by CDP and establish a formal monitoring control to be performed by SLGCP. This should improve communication between CDP and SLGCP's contracted accounting staff, help ensure the timely recording of property activity in SLGCP's general ledger, and improve the reliability of financial data reported to DHS.

SLGCP – FMC 4-02 – Grant Closeout Process (*NFR No. 04-04*)

We noted that SLGCP did not routinely adhere to its policies that require prompt programmatic closeout of grants (i.e., within 180 days after the end date of the grant). In addition, grant files did not contain documentation to justify delays in the programmatic grant closeout process when warranted.

Recommendation:

We recommend that SLGCP fully comply with its policy for closing grants programmatically, including identifying individual program managers as responsible parties and establishing performance goals that focus on the timely closing of grants. If closeout extensions are appropriate, documentation of the reasons and dates of follow-up should be maintained the grant files.

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VI. TRANSPORTATION SECURITY ADMINISTRATION (TSA)

TSA – FMC 4-01 – Internal Affairs and Program Review Reporting (*NFR No. 04-01*)

TSA's Departments of Internal Affairs and Program Review perform many functions that resemble an internal audit program, where independence and absence of conflict of interest would enhance the appearance of the objectivity of their reports. However, we noted that both departments report directly to the Chief Support Systems Officer (CSSO), who in turn reports to the Deputy Administrator.

Recommendation:

We recommend that TSA consider restructuring the reporting hierarchy for the Departments of Internal Affairs and Program Review so their direct reporting authority is to a high level in the organization, such as the TSA's Administrator or Deputy Administrator.

TSA – FMC 4-02 – Human Resources (*NFR No. 04-02*)

We identified several instances where incorrect Federal Employee's Group Life Insurance (FEGLI) and Thrift Savings Plan (TSP) deductions were being made from employees' paychecks. We also found cases where salaries and locality pay in new employee offer letters did not match the initial SF-50s on file.

Recommendation:

We recommend that TSA implement policies and procedures to ensure that all benefit election forms are accurately entered into the payroll system in a timely manner and that the resulting deductions are correct. In addition, we recommend that TSA implement policies and procedures to ensure that salaries are correctly stated in new employee offer letters.

TSA – FMC 4-03 – Leases (*NFR No. 04-03*)

We noted numerous differences between the detailed lease schedule used by TSA to calculate the financial statement disclosure for contingent liabilities, and the lease amounts stated in the occupancy agreements and actually paid.

Recommendation:

We recommend that TSA implement policies and procedures to ensure that lease disclosures for financial statement purposes are compared to the lease/occupancy agreements to ensure accuracy of the supporting schedules and financial statement disclosures.

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VII. UNITED STATES COAST GUARD (USCG)**USCG – FMC 4-01 - Suspense Accounts (NFR No. 04-086)**

USCG Finance Center personnel did not timely review, analyze and clear transactions posted to suspense accounts during FY 2004.

Recommendation:

We recommend that USCG Finance Center personnel establish procedures to ensure that suspense accounts are reviewed and cleared on a timely basis, e.g., monthly.

USCG – FMC 4-02 – Oil Spill Liability Trust Fund Investments (NFR No. 04-023)

Personnel at the USCG's National Pollution Finance Center (NPFC) did not effectively perform monitoring procedures related to the SAS 70³ report, *Report on Controls Placed in Operation and Tests of Operating Effectiveness*, provided by the U.S. Department of the Treasury, Bureau of Public Debt (BPD), a service provider to the NPFC. We noted that the NPFC had not documented its policies and procedures related to the review of the SAS 70 report and personnel had not maintained documentation to support their reviews.

Recommendations:

We recommend that the USCG:

- a. Develop, document, and implement policies and procedures for reviewing and evaluating the results of BPD's SAS 70 report. Procedures should include a mechanism for notifying BPD if the SAS 70 review should assess additional controls to meet NPFC's needs; and
- b. Require NPFC personnel to complete and submit the results of the review to their management within 15 calendar days after the completion of the review process;

USCG – FMC 4-03 - Budget Authority (NFR No. 04-028)

USCG personnel improperly recorded \$100 million in borrowing authority related to the Oil Spill Liability Trust Fund as FY 2003 budget authority. Although USCG personnel subsequently corrected this error, they did not request an adjustment at the DHS consolidated reporting level for financial statement purposes, causing a temporary difference in the DHS consolidated financial statements.

Recommendation:

We recommend that the USCG modify its policies and procedures to ensure that borrowing authority is properly recorded and reported at both the USCG and the DHS consolidated levels.

³ SAS 70 is Statement of Auditing Standards 70, *Service Organizations*. A SAS 70 report prepared by an independent auditor on the processing of transactions by a service organization.

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USCG – FMC 4-04 - Pension Data (NFR Nos. 04-011, 04-051)

USCG personnel were unable to provide sufficient documentation to support key data elements, specifically, birth date and marriage date, for three retiree and annuitant members. We requested this data as part of our testwork over the validity of the participant data provided to the actuary and used to compute the financial statement pension liability and period expense.

Recommendation:

We recommend that the USCG improve its procedures to ensure that documentation is readily available to support the participant data provided to its actuarial firm.

USCG – FMC 4-05 - Military Treatment Facilities (MTF) Costs and Bill Processing (NFR Nos. 04-007, 04-008, 04-009, 04-018, 04-025)

USCG personnel do not routinely perform a detailed review to validate the accuracy of bills from MTFs. Such a review would include checking whether the participant or sponsor is a USCG member, services were provided, and proper rates for services rendered were used. The lack of a detailed review increases the likelihood that erroneous payments could be made by USCG for participant medical expenses. USCG is currently negotiating Memorandums of Agreement (MOA) with military providers to improve controls over medical billings.

Recommendations:

We recommend that the USCG:

- a. Develop policies and procedures to ensure effective controls are established to review and approve MTF billings for payment, to include:
 - Ensuring that the USCG pays for only appropriate participants and sponsors;
 - Ensuring the services provided were actually received by plan participants; and
 - Performing spot checks and review of rates charged for services.
- b. Complete its MOA negotiations with each military service and include a requirement for monthly billings.

USCG – FMC 4-06 - Tricare Costs and Bill Processing (NFR Nos. 04-014, 04-016)

The USCG has not developed and implemented adequate policies and procedures to ensure routine review of Tricare obligations and invoices for accuracy and reasonableness. Additionally, we noted that the USCG has weak controls over system passwords provided by Tricare that are used to access online invoices. For example, we noted the USCG manager and the assistant were using the same password for system access.

Recommendations:

We recommend that the USCG:

- a. Develop and implement policies and procedures to perform and document routine reviews of Tricare obligations and bills for accuracy and reasonableness, and
- b. Require all employees with access to the Tricare system to establish private passwords to help mitigate the possibility of unauthorized access.

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USCG – FMC 4-07 - Non-Federal Medical Invoices (*NFR Nos. 04-017, 04-025, 04-026*)

The USCG has not developed formal policies or procedures over the processing of non-Federal medical invoices. These invoices are processed through the National Invoice Processing System (NIPS). Specifically, Maintenance and Logistical Command Pacific (MLCPAC) and Atlantic (MLCLANT) personnel do not routinely reconcile the NIPS data to the data recorded in the core accounting system at the end of each period to ensure the NIPS data was accurately transferred. Further, we noted that in one instance, MLCLANT personnel did not conduct research to determine whether a computer error in processing invoices was an isolated incident or systemic in nature with the potential for a much greater impact on the accuracy of financial information.

Recommendations:

We recommend that the USCG:

- a. Develop and document consistent policies and procedures for processing the payment of non-Federal medical invoices and for reconciling data between the NIPS and the core accounting systems, and
- b. Investigate the cause of the computer processing error and take appropriate action to identify and correct any resulting financial data errors or systemic problems.

USCG – FMC 4-08 - Imputed Financing (*NFR No. 04-050*)

In FY 2004, USCG personnel did not recognize, in a timely manner, imputed financing related to health care benefits for Medicare-eligible retirees, family members, and surviving spouses.

Recommendation:

We recommend that the USCG establish procedures to obtain and record imputed financing associated with Medicare eligible retiree health care costs in a timely manner.

USCG – FMC 4-09 - Post Retirement Travel Benefits (*NFR Nos. 04-022, 04-032, 04-68, 04-073, 04-078*)

At retirement, USCG service members become entitled to certain travel expenses. We noted that:

- USCG personnel did not record an obligation at the time post-employment travel orders were issued;
- USCG personnel did not properly maintain records to support travel orders processed at the Personnel Service Center (PSC);
- Weaknesses existed in the quality assurance procedures performed over data provided to the outside actuary and the resulting computations; for example, the USCG did not identify, in a timely manner, that three actuarial reports relied upon for the estimated liability for post-employment travel contained errors and/or incorrect assumptions; and
- The PSC did not implement corrective actions during FY 2004 related to access control weaknesses for travel order processing that had been previously identified.

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Recommendations:

We recommend that the USCG:

- a. Revise the travel order process to record an obligation at the time a post-employment travel order is issued to retiring or separating service members who intend to use the post-employment travel benefit;
- b. Establish policies and procedures to ensure documentation is properly maintained to support the payment of expenses for post-employment travel and is properly reviewed for accuracy and completeness;
- c. Adopt controls to ensure that supporting data provided to the outside actuary is accurate and complete and actuarial reports are reviewed for accuracy in a timely manner; and
- d. Develop a corrective action plan to address the access control weakness for travel order processing.

USCG - FMS 4-10 - Financial Disclosure Reports (*NFR No. 04-067*)

The USCG's process for managing the submission and review of confidential financial disclosure reports (CFDRs) was not fully effective. In addition, Commandant Instruction 5370.9A, *Financial Disclosure Reports*, had not been revised to update procedures as necessary after the Coast Guard's transfer from the Department of Transportation to DHS.

Recommendation:

We recommend that the USCG implement improved controls to ensure that reviewing officials are effectively managing the CDFR process and update and publish a revised Commandant Instruction 5370.9A.

USCG -FMC 4-11 – Disbursements (*NFR Nos. 04-034, 04-49, 04-058, 04-059, 04-060, 04-064*)

With respect to disbursements, we noted the following:

- The USCG's core accounting system software is not configured to properly record all disbursements at the transaction level, as required by Federal Financial Management Improvement Act of 1996. Specifically, when an order is delivered, the system should post a transaction to the Standard General Ledger (SGL) account *Delivered Orders – Obligations, Unpaid*⁴, and when the bill is paid, a transaction should be posted subsequently to the SGL account *Delivered Orders – Obligations, Paid*.⁵ Instead, same types of individual transactions posted to *Delivered Orders – Obligations Unpaid* are aggregated and a summary level transaction is recorded to transfer balances to *Delivered Orders – Obligations paid*.
- The core accounting system is not programmed to decrease the undelivered orders balance upon the receipt of goods and services. Instead, the system only records an account payable and expense;
- The USCG improperly paid penalties and interest charges to vendors, even though payments had been made timely;

⁴ SGL Account 4901.

⁵ SGL Account 4902.

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- The USCG could not provide sufficient supporting documentation for two disbursements; and
- The USCG did not properly input the acceptance dates for goods and services into the system.

Recommendations:

We recommend that the USCG:

- a. Modify the core accounting system software to:
 - Identify, at the transaction-level, disbursements initially posted to SGL account 4901 at a detailed level and ensure that these transactions are subsequently posted to SGL account 4902;
 - Reduce the undelivered orders balance upon receipt of goods and services;
- b. Verify that the core accounting system software is properly configured to calculate interest due, and periodically review interest payments calculated by the system to ensure that they are proper;
- c. Improve procedures to ensure that proper supporting documentation is obtained prior to making disbursements and retained; and
- d. Establish procedures to accurately record receiving dates in the core accounting system.

USCG - FMC 4-12 - Judgment Fund (NFR No. 04-082)

USCG personnel did not properly account for legal claims to be paid from the Department of the Treasury's Judgment Fund. As a result, USCG's recorded legal liability was understated by at least \$1,726,000. This situation could also affect the accuracy of financial statement note disclosure information provided by USCG for the DHS consolidated financial statements.

Recommendation:

We recommend that the USCG establish policy and procedures to account properly for all legal claims to be paid from the Treasury Judgment Fund.

USCG - FMC 4-13 – Government Accountability Office (GAO) Checklist for Federal Accounting, Reporting, and Disclosures (NFR No. 04-071)

USCG personnel did not effectively complete the GAO checklist to ensure that the DHS consolidated financial statements contained appropriate and sufficient financial statement disclosures related to USCG financial balances, significant accounting policies and activities.

Recommendations:

We recommend that the USCG:

- a. Develop and implement policies and procedures for timely preparation and review of the GAO checklist before submission to the DHS Office of Financial Management; and
- b. Perform a supervisory review of the responses on the GAO checklist to determine if the CFO's office should be notified of any potential additional disclosures that may be required in the DHS Performance and Accountability Report.

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VIII. UNITED STATES CITIZENSHIP AND IMMIGRATION SERVICES (USCIS)**USCIS – FMC 4-01 – Application Fees at the Los Angeles District Office (NFR No. 04-20)**

Controls over immigration application receipts at the Los Angeles District Office could be improved.

Recommendations:

We recommend that USCIS:

- a. Improve controls in deposit areas;
- b. Implement policies and procedures to ensure that checks and money orders are always restrictively endorsed immediately upon physical receipt; and
- c. Consider using a lock-box operation if cost-effective for mailed applications.

USCIS – FMC 4-02 – Shipment of Applications to a Storage Facility (NFR No. 04-30)

USCIS has implemented a number of controls in the application process to ensure that (a) only completed applications have been shipped to a storage facilities and (b) the automated tracking system (CLAIMS) has been properly updated to reflect completed applications. However, we noted several weaknesses in this process:

- The National Records Center has not fully implemented procedures to verify that applications forwarded to them are completed; that is, a pending application has not been shipped in error for storage.
- The National Benefits Center has not adopted procedures to routinely verify that the status of applications reflected in the CLAIMS system is accurate.

Recommendations:

We recommend that USCIS:

- a. Implement procedures at the National Records Center requiring inspection of applications to verify completion; and
- b. Implement procedures at the National Benefits Center, requiring comparison of applications scheduled for shipment to storage to the status reflected in the CLAIMS system.

USCIS – FMC 4-03 – Processing a Request for Personnel Action (NFR No. 04-32)

We noted a lack of segregation of duties in the review, authorization, and recording, of personnel action forms (SF-50s and SF-52s) processed by CBP on behalf of USCIS (also see CBP – FMC 4-03).

Recommendation:

In addition to the recommendations made in our comment CBP – FMC 4-03, we recommend that the Human Resources Division of USCIS monitor, as a compensating control, the SF-50s and SF-52s sent to the payroll office by CBP, to ensure that the requests are processed appropriately until CBP implements improved controls over personnel action forms.

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CONS	04-01	Improper Payment Act Compliance		Q		
CONS	04-02	Statement of Net Cost Methodologies	C			
CONS	04-03	Instructions for TIER Analytical Tools	C			
CONS	04-04	Controls over the Quarterly Closing Process	C			
CONS	04-05	Improvements Needed Regarding the Timely Issuance of Performance and Accountability Report Preparation and Year-End Close Instructions	C			
CONS	04-06	Identification of Laws and Regulations that are Direct and Material to the DHS Consolidated Financial Statements	C			
CONS	04-07	Consistent Application of the United States General Ledger by DHS Bureaus	C			
CONS	04-08	Controls over the Intra-DHS Elimination Process	J			
CONS	04-09	Financial Management Structure	A, C			
CONS	04-10	Federal Protective Service's Financial Data			14	4-03
CONS	04-11	Certain Federal Law Enforcement Training Center Leases			14	4-02
CONS	04-12	Compliance with the Federal Manager's Financial Integrity Act (FMFIA) of 1982	C	N		
CONS	04-13	Controls over the Intra-Governmental Elimination Process	J			
CBP	04-01	Programming and Configuration of AIMS			3	4-01
CBP	04-02	Reconciliation of Capitalized Assets			3	4-02
CBP	04-03	Lack of Segregation of Duties and Management Review in Processing Personnel Action Forms			3	4-03
CBP	04-04	Verification of Check Proof Listing and Certification of Payments			4	4-04
CBP	04-05	Deficiencies in the Internal Controls over the Drawback Process at the New York / Newark Drawback Office			4	4-05
CBP	04-06	Quality control over In-Bond Warehousing		M		
CBP	04-07	Monitoring of Bonded Warehouses and Foreign Trade Zones			5	4-07
CBP	04-08	Not Used				
CBP	04-09	Unable to Support Amounts Due CBP from Supplemental Duty Bill			5	4-08
CBP	04-10	Internal Controls over Supplemental Duty Bills in New York was Negatively affected by the Events of September 11, 2001			4	4-05
CBP	04-11	Automated Commercial System Deficiencies over Accounts Receivable and CBP's Ability to Effectively Monitor Collection Actions.			5	4-09
CBP	04-12	Detection of Excessive Drawback Claims		M		
CBP	04-13	Prohibited Seized Property			6	4-10
CBP	04-14	Insufficient Retention Period for Documents that Support Drawback Claims			6	4-11
CBP	04-15	Review of Prior Related Drawback Claims		M		
CBP	04-16	ACS Selectivity for Underlying Consumption Entries		M		

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CBP	04-17	Codified Policy and Procedures for Injured Domestic Industries			6	4-12
EPR	04-01	Disconnect between General Ledger accounting and day-to-day Strategic National Stockpile (SNS) operations	C			
EPR	04-02	Financial management of grants – findings related to the Region IX		P	7	4-01
EPR	04-03	Financial management of grants – findings related to the Region IV site visit		P	8	4-02
EPR	04-04	Financial management of grants -- findings related to the Region III site visit		P	8	4-03
EPR	04-05	Financial management of grants – findings related to the Region VII site visit			9	4-04
EPR	04-06	Findings related to the suspense fund			9	4-05
EPR	04-07	Statement of net costs allocation methodology	C			
EPR	04-08	Lack of proper TIER validation process	C			
EPR	04-09	Omission of offsetting receipts from the June 30, 2004 CFO Vision financial statements	C			
EPR	04-10	Number not Used				
EPR	04-11	See Information Technology Management Letter				
EPR	04-12 to 04-15	Numbers not Used				
EPR	04-16	See Information Technology Management Letter				
EPR	04-17	See Information Technology Management Letter				
EPR	04-18	See Information Technology Management Letter				
EPR	04-19	See Information Technology Management Letter				
EPR	04-20	See Information Technology Management Letter				
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EPR	04-22	See Information Technology Management Letter				
EPR	04-23	See Information Technology Management Letter				
EPR	04-24	See Information Technology Management Letter				
EPR	04-25	See Information Technology Management Letter				
EPR	04-26	Controls over the quarterly closing process present a significant internal control weakness	C			
EPR	04-27	Lack of monthly reconciliation of Fund Balance with Treasury (FBWT) amounts to the Undisbursed Appropriation Account Trial Balance (FMS 6654)			9	4-06
EPR	04-28	See Information Technology Management Letter				
EPR	04-29	Number not Used				
EPR	04-30	Lack of timely preparation of the GAO CFO Checklist and June TIER certification	C			
EPR	04-31	Timeliness in resolution of differences related to FBWT reconciliations for certain funds			10	4-07
EPR	04-32	See Information Technology Management Letter				

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EPR	04-33	Improper temporary accruals used for FBWT reconciliations			10	4-08
EPR	04-34	FMFIA Section 4 non-compliance		N		
EPR	04-35	See Information Technology Management Letter				
EPR	04-36	Various findings related to compliance with OMB Circulars A-133 and A-50		P		
EPR	04-37	FMFIA Section 2 non-compliance		N		
EPR	04-38	Lack of Segregation of duties related to preparation and approval of journal vouchers			10	4-09
EPR	04-39	See Information Technology Management Letter				
EPR	04-40	Improper budgetary entries related to investments in Treasury securities	I			
EPR	04-41	Intra-departmental eliminations	J			
EPR	04-42	Mission assignments/interagency agreements and flood insurance			11	4-10
ICE	04-01	Improvement is needed in the process ICE has in place over disbursements made for the DHS Components	H			
ICE	04-02	Development of Tri-bureau Shared Services	B			
ICE	04-03	Review and Analysis of T-Codes	B			
ICE	04-04	Process for verifying and validating obligations and recording Undelivered Orders needs improvement	H			
ICE	04-05	Methodology for estimating accounts payable for component units needs improvement	H			
ICE	04-06	Policies and procedures governing financial accounting and reporting operations for the DHS Components need to be implemented by ICE OFM	B			
ICE	04-07	Transfers of fixed assets between CBP, CIS and ICE as of 10/1/03 need to be completed and appropriately recorded	B			
ICE	04-08	Analysis of financial results needs improvement	C			
CIS	04-09	See Information Technology Management Letter				
CIS	04-10	See Information Technology Management Letter				
ICE	04-11	Level of interface errors needs improvement			12	4-01
ICE	04-12	Untimely performance of the Fund Balance with Treasury reconciliation related to payroll	E			
ICE	04-13	Improvements are needed to ensure follow-up procedures are undertaken and reconciling items for Fund Balance with Treasury are cleared timely	E			
ICE	04-14	Untimely submission by ICE of financial data for the June 30 hard close	C			
ICE	04-15	Reconciliation of the FMS-6652, Statement of Differences, is not being performed for the Headquarters' Agency Location Code	E			
ICE	04-16	Recordation of FY 04 obligations of S&T that were entered in the legacy accounting agency	I			
ICE	04-17	See Information Technology Management Letter				
CIS	04-18	See Information Technology Management Letter				
CIS	04-19	See Information Technology Management Letter				
CIS	04-20	Controls over access to immigration application fees could be improved at the Los Angeles District Office			22	4-01
CIS	04-21	See Information Technology Management Letter				

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ICE	04-22	Lack of segregation of duties in the approval of General Journal Entries	B			
ICE	04-23	Review of "warning" errors and more timely clearing of fatal errors from TIER Error Submission Reports Needed	C			
ICE	04-24	Ineffectiveness of the review function within the general journal approval process	B			
ICE	04-25	Approval of invoices needs improvement for payments made to related IAIP and S&T	H			
ICE	04-26	Untimely Clearing of Suspense Account Transactions	E			
CIS	04-27	See Information Technology Management Letter				
ICE	04-28	Disbursement of Payments to Vendors			12	4-02
CIS	04-29	Lack of sufficient process and procedures related to FMFIA reporting		N		
CIS	04-30	Incomplete procedures to ensure that immigration and naturalization applications which are pending are not being shipped to a storage facility in error			22	4-02
CIS	04-31	Lack of procedures to verify the accuracy and reliability of the query of CLAIMS 4		K		
ICE	04-32	Lack of segregation of duties and management review in the processing Request for Personnel Action			13	4-03
CIS	04-32	Lack of segregation of duties and management review in the processing Request for Personnel Action			22	4-03
ICE	04-33	Untimely receipt of FPS financial data	C			
ICE	04-34	Reconciliation of FMS 6655 is not performed	E			
ICE	04-35	Approval of obligating documents by contracting officer and budget official prior to obligating within FFMS needs improvement	I			
ICE	04-36	Obligations related to Border Patrol activities are in ICE's and CIS' General Ledgers	I			
ICE	04-37	Improper posting of Reconciling Differences from the FMS 6652 to the Suspense Account			13	4-04
ICE	04-38	Fee receipts are not being deposited in a timely manner per Treasury Guidance		K		
ICE	04-39	Possible violations of the Anti-deficiency Act	I			
ICE	04-40	ICE OFM has not met the submission deadlines set forth within the FY 2004 Instructional Memoranda issued by the DHS Office of the Chief Financial Officer	C			
ICE	04-41	Controls over the accuracy of the budgetary data in the General Ledger is not current to ensure that the SF-132 is correct with FMS	I			
ICE	04-42	Financial Management and Oversight at Immigration and Customs Enforcement	B			
ICE	04-43	Lack of sufficient process and procedures related to FMFIA reporting		N		
S&T	04-44	Evaluation of the Environmental Liabilities within the Science & Technology Directorate		L		
ICE	04-45	Procedures to verify the accuracy and reliability of CLAIMS 3 and the CLAIMS 3 query		K		
ICE	04-46	Reconciliation of intra-DHS activity and balances	J			
ICE	04-47	Lack of reconciliation between the Open Document File and the General Ledger on a monthly basis	H			

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ICE	04-48	Immigration and Naturalization applications not tracked in CLAIMS 3 or CLAIMS 4		K		
BTS	04-49	Controls over internal use software and software-in-development need improvement	F			
SLGCP	04-01	Communication between CDP and OJP accounting staff needs improvement			15	4-01
SLGCP	04-02	Statement of Net Costs allocation methodology	C			
SLGCP	04-03	ODP's June 30, 2004 TIER submission was untimely	C			
SLGCP	04-04	Grants in Status 90 not closed timely			15	4-02
SLGCP	04-05	See Information Technology Management Letter				
SLGCP	04-06	See Information Technology Management Letter				
SLGCP	04-07	See Information Technology Management Letter				
SLGCP	04-08	See Information Technology Management Letter				
SLGCP	04-09	See Information Technology Management Letter				
SLGCP	04-10	See Information Technology Management Letter				
SLGCP	04-11	See Information Technology Management Letter				
SLGCP	04-12	Improvements needed in the TIER validation process	C			
SLGCP	04-13	Monitoring of Findings in Accordance with Office of Management and Budget Circular No. A-133 (OMB A-133) "Audits of States, Local Governments, and Non-Profit Organizations"		P		
SLGCP	04-14 to 04-21	Numbers not used				
SLGCP	04-22	See Information Technology Management Letter				
SLGCP	04-23	ODP's management should provide additional oversight and guidance for its financial reporting process	C			
SLGCP	04-24	Number not Used				
SLGCP	04-25	See Information Technology Management Letter				
SLGCP	04-26	See Information Technology Management Letter				
TSA	04-01	Internal Affairs and Program Review Reporting			16	4-01
TSA	04-02	Human Resources			16	4-02
TSA	04-03	Leases			16	4-03
TSA	04-04	Grant Findings	H			
TSA	04-05	FMFIA Compliance		N		
FAM	04-01	FEGLI, Offer Letter, and Control Findings			14	4-01
USCG	04-01	PP&E Existence and Completeness	F			
USCG	04-02	Budget Authority Recording - AC&I Appropriation	I			
USCG	04-03	Field-Held OM&S	G			
USCG	04-04	Recording Budget Authority	I			
USCG	04-05	Timely Recording of PP&E Transactions	F			
USCG	04-06	Statement of Net Costs - Linkage to Strategic Goals	C			
USCG	04-07	Service Member Validation			18	4-05
USCG	04-08	Monitoring of Medical Care Costs			18	4-05
USCG	04-09	DOD Military Treatment Facility (MTF) Costs			18	4-05
USCG	04-10	Environmental Liabilities - Shore Facilities		L		
USCG	04-11	Actuarial Pension Liability Source Data			18	4-04
USCG	04-12	Deepwater Systems Integrated Program Office (SIPO)	H			

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Bureau	NFR No.	Description	Disposition			
			PAR		FMC	
			MW	RC	Page	No.
		Obligations				
USCG	04-13	Accounts Payable Accrual Validation Process	H			
USCG	04-14	Oversight of Tri-Care Medical Costs			18	4-06
USCG	04-15	Environmental Remediation - Small Arms Firing Range		L		
USCG	04-16	Medical Care Payment Controls			18	4-06
USCG	04-17	Processing Procedures for non-Federal Medical Invoices			19	4-07
USCG	04-18	Verification of Medical Services Provided to Service Members			18	4-05
USCG	04-19	Environmental Liabilities – Vessels		L		
USCG	04-20	Environmental Remediation – Lighthouse/Light Stations		L		
USCG	04-21	Fourth Quarter Completeness and Existence Physical Inventory Draft Plan	G			
USCG	04-22	Actuarial Oversight			19	4-09
USCG	04-23	Oil Spill Liability Trust Fund			17	4-02
USCG	04-24	Automated Requisition and Procurement Process	H			
USCG	04-25	Medical and Dental Care Invoice Process Errors			18, 19	4-05, 4-07
USCG	04-26	Reconciliation of Non-Federal Medical Invoices			19	4-07
USCG	04-27	Contracting Officer Warrant Authority	I			
USCG	04-28	FY 2003 Budget Authority -OSLTF	I		17	4-03
USCG	04-29	Preparation of the Reapportionment Schedule	I			
USCG	04-30	CGOF/Financial Procurement Desktop System Controls	I			
USCG	04-31	FY 2003 Acquisition, Construction, and Improvements Rescission	I			
USCG	04-32	Obligations for Post Employment Travel Order	I		19	4-09
USCG	04-33	Un-obligated Commitments	I			
USCG	04-34	Posting of Disbursement Transactions			20	4-11
USCG	04-35	Advances to Others	H			
USCG	04-36	Fact and Figures Quick	H			
USCG	04-37	ELC-System Inventory Locations	G			
USCG	04-38	ICP Physical Inventory Policies and Procedures	G			
USCG	04-39	ELC OM&S WAP Analysis	G			
USCG	04-40	3 rd Quarter Physical Inventory Observation Completeness – Engineering Logistics Center	G			
USCG	04-41	Coast Guard Analysis of Pre 1995 Real Property	F			
USCG	04-42	Existence – General PP&E	F			
USCG	04-43	AR&SC WAP	G			
USCG	04-44	Undelivered Orders – Transactions Processing Errors	H			
USCG	04-45	Fund Balance with Treasury Reconciliations	E			
USCG	04-46	Budgetary Reporting	I			
USCG	04-47	Management Effectiveness Assessments	H			
USCG	04-48	Reporting Obligations – Deepwater Systems Integrated Program Office	H			
USCG	04-49	FFMIA			20	4-11
USCG	04-50	Imputed Financing – Medicare Eligible Retirees' Health Care Fund			19	4-08
USCG	04-51	Pension Data Errors			18	4-04
USCG	04-52	Financial Management and Oversight	C			
USCG	04-53	Asset Identification – Oracle	F			
USCG	04-54	AR&SC 3 rd Quarter Physical Inventory	G			
USCG	04-55	Federal Managers Financial Integrity Act		N		
USCG	04-56	DHS Statement of Net Cost Disclosure	C			

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Bureau	NFR No.	Description	Disposition			
			PAR		FMC	
			MW	RC	Page	No.
USCG	04-57	Bldgs, Structures and Small Boats	F			
USCG	04-58	Disbursements – Erroneous Interest Payments			20	4-11
USCG	04-59	Supporting Documentation for Disbursements			20	4-11
USCG	04-60	Disbursements – Acceptance of Goods/Services			20	4-11
USCG	04-61	UDOs – Premature Recording of Obligations	H			
USCG	04-62	UDOs	H			
USCG	04-63	UDOs - Transaction Codes	H			
USCG	04-64	Recording Acceptance of Goods/Services			20	4-11
USCG	04-65	ELC 4 th Quarter PP& E Physical Inventory	F			
USCG	04-66	Recording of PP&E Transactions	F			
USCG	04-67	Financial Disclosures			20	4-10
USCG	04-68	Post Payment Reviews of Travel Claims			19	4-09
USCG	04-69	Helicopter Interdiction Tactical Squadron Lease	F			
USCG	04-70	Impairment of – PP&E	F			
USCG	04-71	GAO Financial Statement Disclosure Checklist			21	4-13
USCG	04-72	Improvements – Buildings & Structures	F			
USCG	04-73	Travel Claim Disbursement Access Controls			19	4-09
USCG	04-74	Vessels Useful Lives	F			
USCG	04-75	Aircraft Useful Lives	F			
USCG	04-76	Aircraft Improvements – HU25	F			
USCG	04-77	Small Boats Useful Lives	F			
USCG	04-78	Post Employment Travel- Supporting Documentation			20	4-09
USCG	04-79	Intra-governmental Transactions	J			
USCG	04-80	Financial Reporting Process	C			
USCG	04-81	Repairable Components	G			
USCG	04-82	Judgment Fund Liabilities			21	4-12
USCG	04-83	Year-end Obligations	H			
USCG	04-84	Oracle Fixed Assets Module – September 2004	F			
USCG	04-85	General Ledger Account Analysis	C			
USCG	04-86	Clearing/Suspense Accounts	E		17	4-01
USCG	04-87	Adjustments to General Ledger Account Balances	C			
USSS	04-01	Seized Currency Reporting	G			

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Bureau	NFR No.	Description	Disposition	
			Closed	Repeat 04 NFR No.
CONS	03-01	Transferred-in Balances from DHS Legacy and Related Accrual Issues	X	
CONS	03-02	Improvements Needed Regarding the Timely Issuance of Performance and Accountability Report Preparation Instructions		CONS-04-05
CONS	03-03	Identification of Direct and Material Laws and Regulations that are Direct and Material to the DHS Consolidated Financial Statements		CONS-04-06
CONS	03-04	Imputed Costs	X	
CONS	03-05	Compliance with FFMA- Consistent Application of USSGL by DHS Bureaus.		CONS-04-07
CONS	03-06	Accounting for the Transfer-in Balances from DHS Legacy Agencies	X	
CONS	03-07	Lack of Controls over Bureau-Level TIER Inputs/Outputs and CFO Vision Outputs	X	
CONS	03-08	Controls over the Intra-DHS Elimination Process		CONS-04-08
CONS	03-09	Classification of Certain Accounts in the DHS Financial Statements	X	
CONS	03-10	Statement of Net Cost Presentation and Reporting.		CONS-04-02
CBP	03-01	Integration of PIMS with AIMS	X	
CBP	03-02	CARMAC/CAMITS Integration and Outsourcing	X	
CBP	03-03	Programming/Configuration of AIMS		CBP-04-01
CBP	03-04	Review of Prior Related Drawback Claims		CBP-04-15
CBP	03-05	Detection of Excessive Drawback Claims		CBP-04-12
CBP	03-06	Internal Control over the Drawback Process in New York/Newark was Negatively affected by the events of September 11, 2001.		CBP-04-05
CBP	03-07	Codified Policy and Procedures for Injured Domestic Industries		CBP-04-17
CBP	03-08	ACS Selectivity for Underlying Consumption Entries		CBP-04-16
CBP	03-09	Automated Commercial System deficiencies over Accounts Receivable and CBP's ability to effectively monitor collection actions.		CBP-04-11
CBP	03-10	No Quality Control Over In-bond Warehousing and Movement		CBP-04-06
CBP	03-11	Recording Post-Inventoried Shelf Weights	X	
CBP	03-13	Verification of Check Proof Listing		CBP-04-04
CBP	03-14	Overpayment of Drawback Claims	X	
CBP	03-15	Retention Period for Documents that Support Drawback Claims		CBP-04-14
CBP	03-16	Inability to Assess the Appropriate Amount of Consolidated Omnibus Reconciliation Act (COBRA) User Fees Due	X	
CBP	03-17	Intragovernmental Elimination Reconciliation	X	
CBP	03-18	Entry Process Deficiencies		CBP-04-07
EPR	03-01	Timeliness of preparing and closing opening period trial balances must be improved.	X	
EPR	03-02	Timeliness in reconciling Fund Balance with Treasury as of	X	

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		February 28, 2003 should be improved.		
EPR	03-03	Timeliness in clearing errors related to FEMAs' DHS TIER transmission must be improved.		EPR-04-08
EPR	03-15	Region II Financial Management of Grants	X	
EPR	03-16	Region VI Financial Management Grants	X	
EPR	03-17	Region IX Financial Management of Grants		EPR-04-02, EPR-04-36
EPR	03-18	Lack of Preparation of Subsidy Re-estimate for Credit Reform Loans	X	
EPR	03-19	Reconciliation's of Reimbursable Agreements are not Maintained and Properly Reviewed	X	
EPR	03-21	Lack of Timely De-obligation of Disaster Related Obligations		EPR-04-42
EPR	03-25	ADAMS Inconsistency for Disaster 979-Public Assistance		EPR-04-02
EPR	03-27	Quarterly Intra-governmental balance reconciliation's with Trading Partners	X	
EPR	03-28	Improper SF 133 Reporting	X	
EPR	03-29	Federal Managers' Financial Integrity Act of 1982		EPR-04-34
ICE	03-01	Timeliness in clearing errors related to DHS TIER transmission must be improved.		ICE-04-23
ICE	03-05	Improvement Needed in Reconciliation of the FMS-6652, Statement of Differences (SOD), at Headquarters		ICE-04-15
ICE	03-06	Need to Improve the Use of the Deposit Overage/Shortage Memo at the Vermont Service Center.	X	
ICE	03-07	Improve Use of the Deposit Overage/Shortage Memo and Make Timely Deposits at the Nebraska Service Center.	X	
ICE	03-08	Improvements are Needed in the Immigration Application Adjudication Process at the Vermont Service Center	X	
ICE	03-09	Monitoring and Review of the Backlog List and Subsequent Clearing of the Reconciling Items Need to be Improved		ICE-04-13
ICE	03-16	Non-compliance with OMB 01-09 regarding quarterly reconciliations of intragovernmental activity		ICE-04-46
ICE	03-17	Operating leases were included as personal property	X	
ICE	03-18	Controls over the recording of personal property disposals in AMIS need improvement	X	
ICE	03-19	Monitoring and Review of the Suspense Account and Subsequent Clearing of the Transactions Needs to be Improved		ICE-04-26
CIS	03-20	Controls related to application fees need to be improved at the Chicago District Office	X	
CIS	03-21	Physical Controls Related to Application Receipts Could Be Improved at the Texas Service Center	X	
CIS	03-22	Maintenance of SWIP Labels Needs Improvement	X	
ICE	03-23	Process for Verifying and Validating Obligations and Recording Undelivered Orders Needs Improvement		ICE-04-04
LTD	03-01	Strategic National Stockpile Inventory Valuation Issues	X	
LTD	03-02	Identification of Intragovernmental Activity		CONS-04-13
LTD	03-03	Disconnect between General Ledger Accounting and Day-to-Day Strategic National Stockpile (SNS) Operations	X	
LTD	03-04	Strategic National Stockpile Definition of Entity	X	
LTD	03-05	Certain Federal Law Enforcement Training Center (FLETC) Leases		CONS-04-11
LTD	03-06	Intragovernmental Reconciliations at FLETC and FPS		CONS-04-13

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LTD	03-07	Integration of the Inventory Management System (IMS)	X	
LTD	03-08	Control Testwork Findings at the Strategic National Stockpile		EPR-04-29
LTD	03-09	Evaluation of the Environmental Liability at Plum Island Animal Disease Center (PIADC)		S&T-04-44
ODP	03-01	Beginning/Transferred-in Balances to DHS were not accurate	X	
ODP	03-02	"Status 90" grants not programmatically closed		ODP-04-04
ODP	03-03	Year-end closing procedures can be improved	X	
ODP	03-04	ODP's management needs to provide more oversight and guidance for its financial reporting		ODP-04-23
TSA	03-01	Property Management	X	
TSA	03-02	MARAD Expenditures and Advances	X	
TSA	03-03	Accounts Payable	X	
TSA	03-04	Missing employee personnel records	X	
TSA	03-05	DHS Bureau Procedures	X	
TSA	03-06	Leases		TSA-04-03
TSA	03-07	Document Retention	X	
TSA	03-08	Internal Control Monitoring and Evaluation		TSA-04-05
TSA	03-09	Internal Affairs and Program Review Reporting		TSA-4-01
USCG	03-001	Compliance with FFMA		CG-04-49
USCG	03-002	OM&S Repairable Items		CG-04-81
USCG	03-003	Field-Held OM&S		CG-04-03
USCG	03-004	Physical Inventories of Field-Held OM&S		CG-04-03
USCG	03-005	PP&E Improvements		CG-04-72
USCG	03-006	Fund Balance with Treasury Reconciliation's		CG-04-45
USCG	03-007	Retiree & Annuitant Services Reconciliation	X	
USCG	03-008	Additional Observations of Physical Inventories for Field-Held OM&S		CG-04-03
USCG	03-009	Allowance for Doubtful Accounts	X	
USCG	03-010	Access Control – Accessions	X	
USCG	03-011	General Ledger Account Balance- Accounts Receivable	X	
USCG	03-012	Access Controls – Travel Claim Disbursements		CG-04-73
USCG	03-013	Monthly Retiree and Annuitant Services Exception Report	X	
USCG	03-014	Supporting Documentation - Non-Project-Related Post 1995 PP&E		CG-04-57
USCG	03-015	Undelivered Orders - AR&SC	X	
USCG	03-016	Note Disclosure – Leases		CG-04-69
USCG	03-017	Note Disclosure – Fund Balance with Treasury (FBWT)		CG-04-71
USCG	03-018	Intragovernmental Accounts Payable		CG-04-79
USCG	03-019	Fund Balance with Treasury (FBWT) Reconciliations		CG-04-45
USCG	03-020	Pre FY 1995 Real Property Valuation	X	
USCG	03-021	Pre FY 1995 Aircraft and Vessels	X	
USCG	03-022	Inventory Control Point (ICP) Physical Inventory Policies		CG-04-38

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		and Procedures		
USCG	03-023	Intragovernmental Assets		CG-04-79
USCG	03-024	FY 2002 Medical Cost Information	X	
USCG	03-025	Access Controls – Direct Access Application	X	
USCG	03-026	Financial Reporting Process		CG-04-80
USCG	03-027	Environmental Liabilities – Shore Facilities		CG-04-10
USCG	03-028	Environmental liabilities – Vessels		CG-04-19
USCG	03-029	Legal Representation Letter	X	
USCG	03-030	Investments Receivable	X	
USCG	03-031	Permanent Change of Station (PCS) Costs	X	
USCG	03-032	Useful Lives – Vessels		CG-04-74, 04-75, 04-77
USCG	03-033	Confidential Financial Disclosures		CG-04-67
USCG	03-034	Undelivered Orders/Accounts Payable – Medical Expenses	X	
USCG	03-035	FY 2002 Medical Cost Information	X	
USCG	03-036	Year-end accrual	X	
USCG	03-037	Imputed Financing		CG-04-50
USCG	03-038	Pension Data		CG-04-51
USCG	03-039	Financial Management and Oversight		CG-04-52
USCG	03-040	Oil Spill Liability Trust Fund (OSLTF)		CG-04-23
USCG	03-041	Undelivered Orders - Finance Center		CG-04-61, 62, 63
USCG	03-042	Additions and Deletions		CG-04-44
USCG	03-043	Clearing (Suspense) Accounts		CG-04-86
USSS	03-01	1% Retroactive Pay Raise	X	
USSS	03-02	Updates of Employee Files	X	
USSS	03-03	Reporting of Pension Liability	X	
USSS	03-04	Intragovernmental Elimination Reconciliation	X	
USSS	03-05	Counterfeit Contraband System	X	

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

JUL 7 2005



**Homeland
Security**

MEMORANDUM FOR: Richard L. Skinner
Acting Inspector General

FROM: Andy Maner
Chief Financial Officer

A handwritten signature in black ink, appearing to read "A. Maner", written over the printed name of the Chief Financial Officer.

SUBJECT: Draft Report: *Management Letter for the FY 2004 DHS Financial
Statement Audit*

The Office of the Chief Financial Officer has reviewed your comments and recommendations for the *Management Letter for the FY 2004 DHS Financial Statement Audit*. We have also discussed this letter and received comments from several CFO Council members. Overall, we agree with these findings and recommendations and will be working closely with our Bureaus (components), your staff and the auditors to implement as many recommendations as we can in FY 2005.

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

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