

**DEPARTMENT OF HOMELAND SECURITY**  
**Office of Inspector General**

**Management Letter**  
**for the FY 2006 DHS**  
**Financial Statement Audit**



**OIG-07-74**

**September 2007**



Homeland  
Security

September 6, 2007

### Preface

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

This report represents the management letter for DHS' FY 2006 financial statement audit. It contains observations and recommendations related to internal control that were not required to be reported in the financial statement audit report. The independent public accounting firm KPMG LLP (KPMG) performed the audit of DHS' FY 2006 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 15, 2006, that was included in the FY 2006 DHS Performance and Accountability Report. KPMG is responsible for the attached management letter dated December 15, 2006, and the conclusions expressed in it. We do not express opinions on DHS' financial statements or internal control or conclusion on compliance with laws and regulations.

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

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

Richard L. Skinner  
Inspector General



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

December 15, 2006

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 balance sheet and statement of custodial activity of the U.S. Department of Homeland Security (DHS) as of September 30, 2006. We were not engaged to audit the statements of net cost, changes in net position, and financing, and combined statement of budgetary resources for the year ended September 30, 2006. Because of matters discussed in our *Independent Auditors' Report*, dated November 15, 2006, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the balance sheet or the statement of custodial activity for the year ended September 30, 2006.

In connection with our fiscal year 2006 engagement, we were also engaged to consider DHS' internal control over financial reporting and to test DHS' compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the balance sheet and statement of custodial activity. Our procedures did 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 – XII of this letter. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. These comments are in addition to the reportable conditions presented in our *Independent Auditors' Report*, dated November 15, 2006, included in the FY 2006 DHS *Performance and Accountability Report*. A description of each internal control finding, and its disposition, as either a reportable condition or a financial management comment is provided in Appendix A. Our findings related to information technology systems security have been presented in a separate letter to the Office of Inspector General and the DHS Chief Information Officer dated December 15, 2006.

As described above, the scope of our work was not sufficient to express an opinion on the balance sheet or statement of custodial activity of DHS as of September 30, 2006, and we were not engaged to audit the statements of net cost, changes in net position, and financing, and combined statement of budgetary resources for the year ended September 30, 2006. Accordingly, other internal control matters and other instances of non-compliance may have been identified and reported had we been able to perform all procedures necessary to express an opinion on the September 30, 2006 balance sheet and statement of custodial activity, and had we been engaged to audit the other fiscal year 2006 financial statements. We aim, however, to use our knowledge of DHS' organization gained during our work to make comments and suggestions that we hope will be useful to you.



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

Very truly yours,

**KPMG LLP**

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**I. CUSTOMS AND BORDER PROTECTION (CBP)**

**CBP – FMC 06-01 - Verification of Check Proof Listing and certification of payments (NFR No. CBP 06-01)**

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

*Recommendation:*

CBP plans to correct the issue by implementing an automated process that ensures all necessary verifications are completed prior to issuance of a payment; however, this will not be completed until FY 2009. In the meantime, we recommend that CBP implement a manual control to ensure verification of payments and avoid activation of the ACS default.

**CBP – FMC 06-02 –ACS deficiency over the accumulation of claims against a drawback bond (NFR No. CBP 06-04)**

The automated control that prevents a drawback claimant from exceeding the bond amount on file is not operating effectively. As a result, CBP does not have appropriate surety against a drawback claimant who “over” claims. Specifically, we noted a drawback claim in the amount of \$145,107.54 which was different than the ACS screen print function that displays the estimated accumulated claim amounts by bond, showed \$75,756.40.

*Recommendation:*

CBP has stated that improving the design of ACS is not feasible or financially viable in the near-term. However, CBP is taking necessary steps in building the Automated Commercial Environment (ACE) to ensure that the drawback module will properly account for bond sufficiency. Therefore, we recommend that CBP continue with its design and implementation of the ACE financial system.

While ACE is in development, we recommend that CBP management implement a manual control performed by the drawback specialist and technicians to query the bond on file related to the claim, and verify that there is a sufficient amount on the bond to avoid overpayment.

**CBP – FMC 06-03 –ACS deficiencies over non-entity accounts receivable and CBP’s ability to effectively monitor collection actions (NFR No. CBP 06-05)**

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



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*Recommendation:*

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

**CBP – FMC 06-04 – Drawback record keeping deficiency (NFR No. CBP 06-08)**

CBP is required to keep all liquidated entries, including drawback claims, for eight years either on site at port locations, or at an off-site record storage facility. Once liquidated, the entries must remain on site for twelve months. Two of 195 sample drawback claims selected could not be located. Both missing sample items are the responsibility of the Chicago drawback office.

*Recommendation:*

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

**CBP – FMC 06-05 – Various findings during FY 2006 drawback control testwork (NFR No. CBP 06-09)**

From our sample of 195 items, we noted the following cases where drawback review guidelines were not followed:

- One drawback claim subject to the full desk review process was incorrectly liquidated and paid out without performing a full desk review.
- Ten drawback claims were selected for supervisory review since they were designated statistical hits in excess of \$50,000 but no such review was performed.
- Seven of the drawback claims subject to the supervisory review process were initially processed by the drawback chief, and consequently not subject to supervisory review.

*Recommendation:*

We recommend that CBP enforce its drawback guidelines regarding desk and supervisory reviews.

**CBP – FMC 06-06 – Failure to complete full desk reviews and supervisory reviews before deem liquidation (NFR No. CBP 06-10)**

In our sample of 195 drawback claims covering the first three quarters of FY 2006, fourteen claims deemed liquidated before the required full desk review was performed and twelve drawback claims deemed liquidated before the required supervisory review occurred.

*Recommendation:*

We recommend that CBP comply with its own guidelines regarding desk and supervisory reviews.

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**CBP – FMC 06-07 – Lack of formal procedures for Strategic Trade Centers (STC) (NFR No. CBP 06-14)**

We interviewed international trade specialists located in Chicago, New York, and Fort Lauderdale. Based on the inquiries conducted at one of the three STCs, we noted a lack of uniformity in the documentation maintained. While the international trade specialists understood their roles and responsibilities in performing the various analytical reviews, as well as in establishing and following-up on selectivity criteria programmed into the system to identify potentially incorrect entries, the lack of consistent documentation made it impossible for us to verify proper performance of follow-up procedures. An audit trail was available at the other two sites and we were able to verify the performance of follow-up procedures, however, there were no written documentation maintenance procedures at any of the sites reviewed.

In addition to the lack of documentation requirements, there were no standard operating procedures (SOP) for supervisory reviews. During the inquiries conducted, supervisors acknowledged performing reviews over the selectivity criteria prior to submission; however, there was no physical evidence of the review process at any of the three sites.

*Recommendation:*

We recommend that CBP develop a more structured program, including formalized SOP's. The formal SOP's should include documentation requirements that apply to all of the STCs for uniformity, as well as a review hierarchy requiring an audit trail.

**CBP – FMC 06-08 – Absence of a full desk review (FDR) for protested drawback claims (NFR No. CBP 06-15)**

In our sample of 195 drawback claims covering the first three quarters of FY 2006, we noted some of the drawback claims that were designated for a FDR were subject to a protest. Once the protest process was completed and a decision was rendered, the FDR process never resumed. We noted that the protest process does not include the same level of review/scrutiny that is required of a FDR.

*Recommendation:*

We recommend that CBP update its *Drawback Handbook* to ensure that the FDR process resumes after the protest process is completed for selected claims. Due to the fact that the protest process does not include the same elements of review as the FDR, it is important that a claim selected for FDR still be subject to the FDR even after a protest is completed.

**CBP – FMC 06-09 – Insufficient evaluation criteria for account managers (NFR No. CBP 06-17)**

A single, uniform standard set of measurement criteria does not exist for evaluating the effectiveness of the Account Manager Program. Weaknesses exist in the communication of criteria to the account managers at the various ports of entry. In addition, the *Account Management Handbook* has not been updated since 2001.

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*Recommendations:*

We recommend that CBP:

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

**CBP – FMC 06-10 – Weaknesses in the review of weekly and monthly entry edit reports (NFR No. CBP 06-18)**

We statistically selected thirteen ports at which to perform control testwork. Based on the results of the testwork performed, we noted the following instances of non-compliance with Customs Directives 5610-004A and 5610-006:

- No evidence that the following reports were being processed or reviewed:
  - B06 *Rejections Report* at 5 ports,
  - B06 *Cancellations Report* at 1 port,
  - B07 *Unpaid/Rejected Entries Report* at 2 port,
  - E17 *Bad Address Report* at 4 ports.
- No evidence of supervisory review for the following reports:
  - B06 *Cancellations Report* at 3 ports,
  - S21 *Weekly Deletion Report* at 2 ports,
  - Q15 *Monthly Quota Report* at 3 ports.

In addition, we noted the following:

- One port did not maintain the required supporting documentation for deleted entries as detailed in Customs Directive 5610-006.
- One port did not properly implement segregation of duties controls. There are currently four personnel with the ability to process deletions. The same personnel rotate the review function of the S21 report on a periodic basis. As such, one person may receive the review function the week after he or she performed a deletion, and therefore, will review his or her own deletion.
- One port does not have backup personnel in place for the entry personnel responsible for reviewing the B08 *Late Report* and B84 *Budget Clearing Account and Suspense Item Report*. The reports were not processed or reviewed for a period of three weeks in October when the Entry Specialist was on leave.

*Recommendations:*

We recommend that CBP:

- Reinforce the importance through updated directives or other written communications and, if necessary, provide adequate training to ensure that the following reports are properly processed and reviewed, as required by Customs Directives 5610-004A and 5610-006: B06 (Rejections), B07, B08, S21, B84, E17, and Q15. Further, consider expanding upon the current directives to add a requirement for periodic supervisor level review of these reports;
- Reinforce the importance through updated directives or other written communications and, if necessary, provide adequate training to ensure that the following reports are reviewed by a supervisor (with evidence thereof by signature or initial) as required by Customs Directives 5610-004A and 5610-006: B06 (Cancellations), S21, and Q15;

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- Implement policies and procedures or re-communicate existing policies and procedures through training or other written communications to ensure that the ports retain proper supporting documentation for deleted entries;
- Implement policies and procedures or re-communicate existing policies and procedures through training or other written communications to ensure that the ports have proper segregation of duties over the cancellation and deletion of entries; and
- Develop and implement policies that stipulate the requirement of back-up personnel to timely process and review reports required by Customs Directives.

**CBP – FMC 06-11 – Property, plant and equipment fiscal year (FY) 2005 misstatement (NFR No. CBP 06-24)**

CBP's property, plant, and equipment (PP&E) balance was misstated by approximately \$172 million at September 30, 2005. CBP undertook a significant project to identify and property account for these errors. CBP did not determine the final adjustments until the 3<sup>rd</sup> and 4<sup>th</sup> quarters, thus resulting in misstatements of PPE for the first three quarters of FY 2006.

*Recommendation:*

We recommend that CBP implement policies and procedures to monitor PP&E balances throughout the year and any identified errors should be researched and corrected in a timely manner. CBP's "FY 2005 PP&E Clean-Up Group" should make permanent some of the PP&E review procedures developed in FY 2006 to detect prior year errors in PP&E in order to avoid such errors in the future. Coordination should be stressed and documented as such among the responsible CBP offices.

**CBP – FMC 06-12 – Weaknesses in the management of environmental liabilities (NFR No. CBP 06-25)**

We noted weaknesses related to CBP's policies and procedures for recognizing environmental liabilities during FY 2005. During FY 2006, CBP made significant program changes and improved their overall process related to environmental liabilities. However, the following weaknesses were still noted during FY 2006:

- Development and implementation of the environmental liability management efforts, including new policies, procedures, and the management software system (CB-Track) has not been finalized.
- Complete traceability of the environmental liability as it relates to underground storage tanks (UST) does not exist as the summary report did not match detailed supporting documentation.
- Re-evaluation of liability associated with firing ranges has not been completed.
- No indexing (inflation factoring) was completed for those parts of the liability where no other changes occurred from prior year.

*Recommendations:*

We recommend that CBP:

- Continue developing, implementing, and maintaining environmental liability management efforts including developing policies, procedures, and management software systems;

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- Obtain and compile the cost estimates for all UST projects that show the assumptions used and calculation methodology, ensure that all sunk costs are excluded from the calculation, and document the overall environmental liability identified for the UST projects;
- Re-evaluate the estimates related to CBP's firing range liability as additional information becomes available; and
- Update estimates annually through indexing (inflation factoring), if necessary, where no other material changes have occurred and follow up on any issues identified in previous or current facility surveys.

**CBP – FMC 06-13 - Implementation of SFFAS No. 4, Interpretation No. 6 (NFR No. CBP 06-07)**

CBP has not established a process to identify imputed financing sources and related costs for services provided by other bureaus within the Department of Homeland Security (DHS). As a result, CBP's imputed financing costs were misstated for the first three quarters of FY 2006.

*Recommendations:*

We recommend that CBP:

- Identify all activity with other DHS bureaus and determine if the transactions are recorded at full cost as required by SFFAS No. 4, interpretation No. 6;
- Obtain through the Department the necessary documentation from the other DHS bureaus in order to determine the imputed financing and costs to be recorded for those services/goods not already recorded at full cost; and
- Update, at least twice a year, once at year-end, the imputed financing and costs associated with intra-DHS activity.

**CBP – FMC 06-14 - Unable to Obtain UCE's for Drawback (NFR No. CBP 06-12)**

In our sample of 195 drawback claims covering the first three quarters of FY 2006, one of the drawback claims had 7 underlying consumption entries selected for review. The drawback office only obtained and reviewed four of the 7 entries from the entry ports. This claim was then liquidated and paid out to the drawback claimant. The Drawback Chief did not take the appropriate actions as stated in the *Drawback Handbook* to obtain the remaining 3 consumption entries.

*Recommendation:*

We recommend that CBP comply with its own guidelines to enforce internal controls, and ensure that drawbacks are properly liquidated.

**CBP – FMC 06-15 – Financial Statement Presentation (NFR No. CBP 06-21)**

Based upon our review of CBP's September 30, 2006 pro-forma financial statements, we noted the following OMB A-136 requirements were omitted from the financial statements and related footnotes:

- CBP's statements and related footnotes did not present comparative balance sheet information.

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- The Summary of Significant Accounting Policies (SOSAP) footnote of CBP's pro-forma financial statements did not contain the required information related to earmarked funds, basis of accounting, and reclassifications.
- Separate disclosures and footnotes related to contingent liabilities, earmarked funds, custodial revenue, revenue GAP, the Statement of Financing, and budgetary supplementary information were missing.
- The Statement of Net Cost did not present intragovernmental costs and revenues on the principal statement. In addition, Air and Marine operations were omitted for the statement however, presented in the footnotes.

*Recommendation:*

We recommend that CBP work jointly with the Department's OCFO ensure that the DHS Performance and Accountability Report Guidance are in accordance with all Federal Accounting Standards Advisory Board (FASAB) statements and OMB circulars.

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**II. FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA) (Formerly Emergency Preparedness and Response)**

**FEMA – FMC 06-01 – Lack of segregation of duties related to preparation and approval of journal vouchers (NFR No. FEMA 06-01)**

We noted that 16 individuals had both preparation and approval authority of their own journal vouchers within the Integrated Financial Management Information System (IFMIS). In FY 2005, we reported that 15 people held this authority.

*Recommendation:*

We recommend that the system access configuration in IFMIS be reviewed and modified to prohibit individuals from preparing and approving their own journal vouchers. In addition, the list of individuals with the ability to approve journal vouchers should be reviewed by the FEMA Office of the Chief Financial Officer (OCFO) to ensure that the number of approvers is appropriate given the needs of the organization and the nature of the transactions processed by journal vouchers.

**FEMA – FMC 06-02 – Ineffective controls over processing mission assignment payments (NFR No. FEMA 06-02)**

Mission assignment (MA) payments are being made by check or the Intragovernmental Payment and Collection System (IPAC) and processed as an expense before the appropriate approving official (i.e., region personnel) has authorized that the work/services have been performed/received. The MA payment standard operating procedure has established this as FEMA policy. We also noted four of 35 MA payments selected for testwork were not processed or sent for approval in a timely manner.

*Recommendations:*

We recommend that:

- The FEMA Disaster Finance Branch (DFB) revise its SOP, *Processing Mission Assignment and Interagency Payments for Fund Code 06* to require regional approval of payments prior to recording them as expenses and to decrease the time allowed for the regions to return such approvals to DFB;
- The FEMA DFB develop and implement procedures to follow-up promptly when regions have not timely approved payments; and
- FEMA ensure that a sufficient contingency plan is in place so that general administrative functions related to processing MA's continue, even when significant resources have been deployed to disaster sites.

**FEMA – FMC 06-03 – Non-compliance with DHS Management Directive 0480.1, *Ethics/Standards of Conduct* (NFR No. FEMA 06-03)**

We noted that of 8,700 FEMA employees who were required to receive ethics training during calendar year 2005, only approximately 6,650 actually received the training.

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*Recommendation:*

We recommend that FEMA management revise the timing and frequency of annual ethics training to allow all employees to attend. Additionally, that FEMA develop procedures and dedicate resources to tracking compliance with and monitoring of the annual ethics training requirements.

**FEMA – FMC 06-04 – Mission assignment obligations in excess of the agreement (NFR No. 06-04)**

We reviewed 27 mission assignment obligations, of which one was recorded in the National Emergency Management Information System (NEMIS) and IFMIS for \$4,000 while the obligating document authorized \$3,500. The MA file was initialed and dated by the financial information analyst and reviewed by the lead accountant. This error was neither identified nor corrected through the review.

*Recommendation:*

We recommend that the FEMA DFB consider whether additional periodic controls or training should be implemented, related to the review and comparison of obligation amounts from the FEMA Form 90-129 to NEMIS and ultimately IFMIS.

**FEMA – FMC 06-05 – Untimely clearing of items from the suspense account (NFR No. FEMA 06-06)**

Approximately \$42 million from the total balance of \$66.1 million in the suspense account (70F3875) as of June 30, 2006 had been in suspense over 180 days. Of the \$42 million, approximately \$15.5 million related to balances from FY 2001 and prior.

*Recommendation:*

We recommend that FEMA devote the resources necessary to monitor, research, and resolve transactions in the suspense account in a timely manner.

**FEMA – FMC 06-06 – Lack of current Anti-deficiency Act policies and procedures (NFR No. FEMA 06-07)**

FEMA's formal policies and procedures are either outdated or incomplete for many of the roles, responsibilities, processes, and functions performed within FEMA's Budget Division as they pertain to the Anti-deficiency Act. For example, we noted that improvements are needed related to the formal documentation of:

- The process for submitting the SF-132, *Apportionment and Reapportionment Schedule* and the SF-133, *Report on Budget Execution and Budgetary Resources* to the Department's OCFO for review and subsequent submission to Office of Management and Budget (OMB).
- The current titles of personnel responsible for monitoring compliance with the Anti-deficiency Act.
- Compliance with OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget*.

The policies and procedures for FEMA's compliance with the Anti-deficiency Act were dated August 1984 (i.e., when FEMA was an independent agency). Since that time, the roles and titles of responsible personnel have changed, and FEMA became part of DHS. Also, we noted that



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OMB Circular No. A-34, *Instructions on Budget Execution* is referenced in the policies and procedures; however, this Circular has since been superseded by Circular No. A-11.

*Recommendation:*

We recommend that FEMA update its policies and procedures related to the Anti-deficiency Act to reflect current operating procedures and responsibilities, FEMA's integration into DHS, and relevant OMB budget guidance.

**FEMA – FMC 06-07 – Unavailability of supporting documentation for certain human resources transactions (NFR No. FEMA 06-08)**

We noted the following related to FEMA's entity level controls over human resources:

- FEMA does not maintain records of training attended by branch chiefs in the OCFO and in the Office of the Chief Procurement Officer (OCPO).
- FEMA was unable to provide documentation to support the Budget Service Branch's (BSB) approval of the availability of funds before employees were hired in a timely manner.
- FEMA was unable to provide the annual performance evaluations, from FY 2005, for 6 of 18 permanent full time employees sampled in a timely manner.

*Recommendations:*

We recommend that FEMA:

- Develop and implement policies and procedures to maintain and monitor records of training attended by the OCFO and OCPO branch chiefs and above, to ensure that personnel have received the appropriate training for their current duties;
- Ensure that procedures are in place to retrieve needed information when records are sent to off-site locations for an extended period; and
- Ensure that procedures are in place to complete performance evaluations in a timely manner and to document the completion of performance reviews when the supervisor and the employee disagree on the review.

**FEMA – FMC 06-08 – Unavailability of supporting documentation for undelivered orders (NFR No. FEMA 06-11)**

We selected a sample of 33 Undelivered Orders – Obligations, Unpaid (UDOs) as of June 30, 2006 for review at the DFB. Supporting documentation, including obligating documents, was not provided for one sample item, an obligation for approximately \$770,000.

*Recommendation:*

We recommend that FEMA improve procedures to ensure that supporting documentation is regularly submitted and available to support all obligations and related disbursements.

**FEMA – FMC 06-09 – Unavailability of supporting documentation for reporting of internal use software and internal use software in development (NFR No. FEMA 06-12)**

FEMA did not maintain records of the actual costs for its internal use software or internal use software in development. FEMA is currently estimating the capitalizable cost of these assets. In

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addition, FEMA does not have procedures in place to periodically assess the reliability of its estimates, such as through comparison of estimates to actual costs.

Further, in FY 2006 FEMA recorded costs for software in development in SGL account 1830, *Internal Use Software*, rather than SGL account 1832, *Internal Use Software in Development*, as reported in FY 2005.

*Recommendations:*

We recommend that FEMA:

- Develop and implement a formal tracking system for the costs related to the development and implementation of internal use software;
- Use the information from the tracking system either to record actual costs of internal use software in the general ledger or to validate estimated costs on a periodic basis (at least annually);
- Amend its procedures to ensure that the costs of software in development are recorded in SGL account 1832, and the full cost of the software is transferred to SGL account 1830 after final acceptance testing is completed;
- Reclassify costs of software in development that are currently recorded in SGL account 1830 to SGL account 1832; and
- Properly record the amortization expense recorded to date for the costs of software in development.

**FEMA – FMC 06-10 – Lack of segregation of duties in accounting for the loan program and inadequate support for the subsidy rate calculation (NFR No. FEMA 06-13)**

Our review of the loans receivable process identified that the Loan Accountant prepares the quarterly loan statements, the estimate for the cohorts, and the loan and interest re-estimates and enters the information into the OMB online Balances Approach Re-estimate Calculator (BARC), without any supervision, review, or approval from another individual within FEMA.

Further, the spreadsheet initially used to support the FY 2006 subsidy rate estimate did not present a documented model of future cash outflows that could be used to calculate the credit subsidy cost of the Community Disaster Loan (CDL) program to the government. Unsupported default rates were entered into the spreadsheet to achieve the predetermined overall subsidy rate of 75%. However, we noted that FEMA received support in the form of an opinion from OMB on October 20, 2006.

*Recommendations:*

We recommend that FEMA:

- Continue to train additional personnel to prepare and enter the loan program statements and transactions and then make the Loan Accountant responsible for reviewing this work;
- Prepare a supportable cash flow model for the CDL program, including documentation of the assumptions, the model, the creation of subsidy estimates, and the review of subsidy estimates. Specifically, the following documentation should be routinely produced for future estimates and re-estimates: (1) support for the assumptions (this document must be able to stand on its own in order to facilitate proper review); (2) procedures for calculating the cash inflows and outflows that would be used to calculate the subsidy rate; (3) review and

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approval process of the subsidy estimates, including the sign-off procedure within the agency; (4) calculation of recoveries; (5) historical supporting documentation used in the underlying assumptions; (6) documentation of relevant supporting actual cash and economic experience; (7) documentation of relevant program design factors; and (8) relevant experiences from other agencies; and

- Alternatively, FEMA could again obtain a documented expert opinion on the reasonableness of the subsidy rate. Although a majority of federal loan programs use cash flow models to comply with the Credit Reform Act of 1990, this act also allows, as an interim measure, the informed opinion of a statistician or other expert if there is an absence of historical data or if a program has changed in ways that cannot be modeled using historical data. The expert's opinion should describe why a cash flow model based on historical data and econometric methods is not feasible, and it should describe the reasons for the expected default and recovery rate.

**FEMA – FMC 06-11 – Recognition of National Flood Insurance Program (NFIP) flood claim obligations (NFR No. FEMA 06-17)**

During FY 2005, FEMA changed the timing of the recognition of obligations related to flood insurance claims and began recording an obligation only once a claim was approved for payment. However, no budgetary accounting guidance specifically addresses the unique nature of flood insurance claims. During FY 2006, FEMA continued to record an obligation for flood insurance claims only when final approval was made. No attempt was made to obtain formal guidance or clarification from OMB, as was recommended during the FY 2005 audit engagement.

*Recommendation:*

We recommend that FEMA request from OMB written guidance regarding the timing for the recognition of budgetary obligations related to flood insurance claims.

**FEMA – FMC 06-12 – Statement of Net Cost (SNC) allocation methodology (NFR No. FEMA 06-05)**

During FY 2006, FEMA began development of detailed procedures to perform a cost allocation methodology. As of August 31, 2006, FEMA had not finalized this methodology or applied it to any FY 2006 quarter's expenses and planned to implement the new methodology for the September 30, 2006 financial statements.

*Recommendation:*

We recommend that FEMA complete development of and implement its revised cost allocation methodology, including periodic validation procedures.

**FEMA – FMC 06-13 – Review for property, plant and equipment acquired at fiscal year end (NFR No. FEMA 06-22)**

We noted the following related to PP&E:

- Some manufactured housing units that exceeded the capitalization threshold were not recorded in the financial records as capitalized assets as of September 30, 2006. Our review of expenses greater than \$50,000 for budget object classes (BOCs) 2100 through 3199 identified three mobile homes with individual cost exceeding \$50,000 that were not included

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in the IFMIS PP&E balance. The invoice price for each of three mobile homes was approximately \$59,000, while the cost recorded in the Logistics Information Management System (LIMS) for each was \$35,000.

- A comparison of the FY 2005 property listing of manufactured housing units per LIMS and PP&E subsidiary records (which support IFMIS) disclosed 69 manufactured housing units that exceeded the capitalization threshold, which were not included in the IFMIS PP&E total as of September 30, 2005. FEMA maintains that the homes are not capitalizable property as the useful lives are only 18 months and has consistently applied this for FY 2005 and FY 2006. However, in FY 2006 FEMA began to account for stockpile materials held in reserve. Management decided through analysis to account for manufactured homes as equipment rather than stockpiled inventory based primarily on the determination that the manufactured homes have a useful life of 3 to 5 years. We note that FEMA is inconsistent in its determination of the useful life of manufactured housing units.
- FEMA could not provide adequate supporting documentation for 15 of the 94 selected expenses for BOCs 2100 through 3199. As such, we could not determine whether these expenditures were expenses or capital outlays.
- FEMA did not maintain an audit trail of its review of expenses greater than \$50,000 from the 3000 series BOC for the period September 21, 2006 through September 30, 2006.

*Recommendations:*

We recommend that FEMA:

- Update the capitalization policy as appropriate and train employees on the procedures for identifying and properly recording capitalizable assets;
- Work with the Logistics Branch and implement a consistent policy for either stockpiling or capitalizing manufactured housing units in excess of \$50,000;
- Develop and implement a consistent documentation and retention policy for disbursements; and
- Implement a policy for maintaining an audit trail to support the year-end review of the 3000 series BOC transactions.

**FEMA – FMC 06-14 – Timely and accurate recording of manufactured housing property in LIMS (NFR No. FEMA 06-23)**

As reported in FMC 06-13, FEMA did not accurately record the purchase of manufactured housing units in the property management system, and supporting documentation was not readily available. Per review of expenses for BOCs 2100 through 3199, we identified three instances in which FEMA did not record the actual invoice price for a mobile home in LIMS (the invoice prices were approximately \$59,000 while LIMS contained a \$35,000 purchase price). Additionally, IFMIS noted that the goods were accepted on January 18, 2006 while LIMS showed acquisitions dates of October 3, October 10, and November 23, 2005.

*Recommendations:*

We recommend that FEMA's Logistics Division:

- Implement appropriate measures to ensure that personal property is entered accurately and timely into LIMS and supporting documentation is maintained; and
- Perform a completeness review to ensure that all manufactured housing units received related to Hurricanes Katrina and Rita have been accurately entered into LIMS.

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**FEMA – FMC 06-15 – Incomplete year-end accounts payable accruals related to fire grants (NFR No. FEMA 06-25)**

FEMA records the funding received from the Office of Grants and Training (G&T) in Fund Balance with Treasury (FBwT) and as an advance from others. As disbursements are made to grantees, FEMA reduces FBwT and the advance from others and records reimbursable revenue and expense. However, FEMA did not estimate an amount to be accrued for Assistance to Firefighters Grants (AFG) expenses incurred by grantees but not paid to them as of September 30, 2006. Further, FEMA was unable to identify the period in which work was completed for disbursements made subsequent to September 30, 2006.

*Recommendation:*

We recommend that FEMA develop and implement procedures to estimate and record the grants payable liability related to the AFG quarterly and communicate such information to G&T.

**FEMA – FMC 06-16 – Untimely processing of IPAC transactions in Treasury account fund symbol (TAFS) 7050711 (NFR No. FEMA 06-26)**

FEMA did not timely process IPAC receipts for the month of August 2006. This resulted in FEMA having a credit balance of \$10 million in FBwT in TAFS 7050711 for the month ending August 31, 2006.

*Recommendation:*

We recommend that FEMA dedicate the resources necessary to record and report IPAC transactions timely.

**FEMA – FMC 06-17 – Improving flood insurance processes related to accelerated financial reporting deadlines (NFR No. FEMA 06-28)**

The National Flood Insurance Program (NFIP) did not provide final NFIP financial statements until November 6, 2006, although the final FY 2006 FEMA TIER financial data was submitted to the Department on October 16, 2006 as required by DHS Office of Financial Management (OFM). We noted similar conditions in FY 2004 and FY 2005.

*Recommendation:*

We recommend that FEMA coordinate with its third-party service provider for flood insurance to ensure that the provider can submit final year-end NFIP financial statements to FEMA for inclusion in the final TIER submission.

Since the process for compiling the NFIP financial statements must be condensed into a shorter period for the September statements to allow FEMA to incorporate final NFIP financial data into the final TIER submission in late October, we also recommend that the OCFO coordinate with the third-party services provider to determine whether the current schedule for the receipt and reporting of Write-Your-Own (WYO) companies' financial data is sufficient to allow the provider to submit final NFIP financial statements to FEMA for inclusion in the final TIER submission. If the schedule is not sufficient, it may be necessary to make modifications to the existing contracts that the NFIP has with each WYO.

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**FEMA – FMC 06-18 – Lack of formal policies and procedures for entity-level controls, financial reporting, and funds management (NFR No. FEMA 06-29)**

Formal policies and procedures (including desk manuals) are either outdated or incomplete for many roles, responsibilities, processes, and functions performed within FEMA's OCFO and OCPO. For example, the following areas need improvement:

- Preparation and review of quarterly and annual financial statements.
- Reconciliations and review of FBwT and FACTS II transactions.
- Quarterly process for estimating accruals (including accrual validation).
- Quarterly processing of NFIP vendor statements.
- Identification of and adherence to Generally Accepted Accounting Principles (GAAP) and the OMB requirements.
- Quarterly process for de-obligations.
- Roles, responsibilities, and functions performed within the Human Resources Division.
- Policies for general documentation requirements and retention of the documentation over entity-level controls.

*Recommendation:*

We recommend that concurrent with its implementation of OMB Circular No. A-123, *Management's Responsibility for Internal Control*, FEMA conduct an inventory of the roles, responsibilities, processes, and functions performed within the OCFO and OCPO, and formally update the guidance provided in approved policies and procedures.

**FEMA – FMC 06-19 – Lack of validation procedures over accounts payable accruals (NFR No. FEMA 06-30)**

FEMA did not regularly prepare a thorough validation of its accrual estimation methodologies. FEMA provided validations comparing amounts accrued and the first three days of grant drawdowns. However, the methodologies employed to estimate expenses failed to identify significant amounts drawn by states affected by Hurricanes Katrina and Rita. The differences primarily reflected amounts paid in the first three days of the subsequent month to states, including payments of approximately \$35 million to Florida on April 5, 2006; approximately \$39 million to Louisiana on July 7, 2006; and approximately \$32 million to Louisiana on October 5, 2006, affecting the validation of its accounts payable estimation methodology.

*Recommendation:*

We recommend that FEMA evaluate the current accrual estimation and validation methodologies for the Disaster Relief Fund for completeness and accuracy. Further, we recommend that FEMA regularly validate the Disaster Relief Fund accruals by comparing them to subsequent actual payments.

**FEMA – FMC 06-20 – Temporary adjustments of Fund Balance with Treasury reconciling differences (NFR No. FEMA 06-31)**

Our year-end FBwT reconciliation testwork revealed that the Reports Consolidation Branch temporarily posted adjustments that netted to \$24.8 million to FBwT to reduce TAFS 70F3875 (suspense account) to \$663,000 as of September 30, 2006.

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*Recommendation:*

We recommend that FEMA improve the timeliness of its correction of reconciling differences with Treasury to eliminate the need for temporary unsupported adjustments.

**FEMA – FMC 06-21 – Recording of transactions in Fund 36 (NFR No. FEMA 06-10)**

During our reconciliation of the June 30, 2006 UDO population to the general ledger, we noted that FEMA Fund 36 is a contra account for FEMA Fund 6. Upon inquiry of the DFB, Statement and Receivable Section personnel about the reconciling difference, we were informed that Fund 36 is a suspense account for Fund 6. The balance of Fund 36 is journal vouchered, at the summary level, by trading partner, to Fund 6 at the end of every month.

Fund 36 contains IPACs which were charged to Fund 6, for which FEMA does not have supporting documentation to process the payment. Of the approximately \$855 million balance in Fund 36 at June 30, 2006, \$623 million had been in the Fund for over 90 days.

*Recommendation:*

We recommend that DFB develop and implement procedures to ensure proper supporting documentation is received, that the support is approved by the appropriate personnel, and that the transactions are recorded to Fund 6 at the transaction level in a timely manner upon receipt of the IPAC, but no later than 90 days after receipt.

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**III. OFFICE OF GRANTS & TRAINING (G&T) (Formerly State and Local Government Coordination and Preparedness)**

**G&T – FMC 06-01 – Grants not closed timely (NFR No. G&T 06-08)**

As of March 31, 2006, 28 of the 135 grants selected for testwork had end dates that had passed and were eligible to be closed. We noted that eight of the 28 grants eligible for closure had end dates that had passed over a year ago and close out procedures had not been completed. These eight grants were considered Status 91 – they had been programmatically closed, but not fiscally closed – and had a remaining total award balance of \$246,662. The official grant files did not contain any documentation to explain the delay in the close out process.

We also selected a grant that was in Status 92 for our test of design over the close out control. Status 92 grants have been programmatically and fiscally closed. The grant did have all of the required documentation, but was not closed within the required timeframe. The grant's end date was March 31, 2005; however, the close out procedures were not completed until May 3, 2006.

*Recommendations:*

We recommend that G&T management:

- Enforce G&T policy for closing grants and hold those responsible (i.e., individual G&T grant program managers, unresponsive grantees) accountable for delays, or lack of documentation to justify delays in the grant close out process;
- Establish performance goals for G&T grant program managers that focus on the timely closing of grants;
- Establish formalized lines of communication and follow-up whereby grantees are timely notified of the documents necessary for the programmatic and fiscal grant close out package; and
- Monitor the Office of the Controller (OC) Control Desk's adherence to the timetable established for the timely fiscal close out of grants whereby the OC Control Desk fiscally closes all grants once the grants enter Status 91.

**G&T – FMC 06-02 – FedShare error rate analysis is not performed (NFR No. G&T 06-15)**

We requested an analysis of the FedShare error rate related to grants that had monitoring site visits conducted over them. We noted that G&T's policies and procedures related to the SF 269, *Financial Status Report*, reviews during these site visits for the financial monitoring of grants had not been completed and formalized. We also noted that G&T had not prepared an analysis of FedShare reporting errors for grants with related site visits as of October 13, 2006. Additionally, we noted that G&T stated that they will not be completing a report related to FedShare errors in fiscal year 2006.

*Recommendation:*

We recommend that G&T implement, complete, and formalize policies and procedures related to their monitoring site visits for recording FedShare errors. Additionally, we recommend that G&T allocate resources towards performing and preparing an adequate FedShare error rate analysis summary for all grants requiring site visits.



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**G&T – FMC 06-03 – Untimely deobligation of non-grant UDOs (NFR No. G&T 06-17)**

We tested 53 non-grant and non-payroll UDOs. Based on our testwork, we identified three non-grant UDO balances that were not valid because the period of performance had passed without any activity on the obligation and no contract modification had been processed to extend the period of performance. As there had been no activity on these UDOs for over a year and no contract extensions, the UDOs should have been de-obligated by G&T. Additionally, the non-grant files did not include any documentation to explain why these UDOs had not been de-obligated.

*Recommendation:*

We recommend that G&T promptly deobligate the three obligations identified above. In addition, G&T should allocate adequate resources to perform timely deobligations of UDOs with expired periods of performance.

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#### **IV. UNITED STATES CITIZENSHIP AND IMMIGRATION SERVICES (USCIS)**

##### **CIS – FMC 06-01 – Quality assurance analysis requirement (NFR No. CIS 06-01)**

USCIS performs quality assurance (QA) procedures over pending immigration and naturalization applications to determine deferred revenue. The CIS Performance Management Division (PMD) did not complete its procedures to analyze QAs performed over selected applications for immigration and naturalization benefits during the first quarter of FY 2006 as required by USCIS quality assurance procedures guidance.

*Recommendations:*

We recommend that the USCIS Office of Financial Management in conjunction with the PMD:

- Adhere to existing guidance related to performance of analysis of the QA results received from the district offices, National Benefits Center, and service centers;
- Implement procedures to ensure that QA results are being analyzed properly and in a timely manner by PMD;
- Document its existing PMD QA procedures guidance in formal standard operating procedures format which clearly detail, at a minimum, the procedures to be performed as part of the analysis of the QA results and the timeline for the performance of such procedures; and
- Devote additional resources to the timely analysis of the QA results so that the statistics can be accurately analyzed and any changes to the sampling plan can be made timely.

##### **CIS – FMC 06-02 – Insufficient QA procedures related to the search for missing files (NFR No. CIS 06-02)**

The QA procedures are insufficient in relation to procedures prescribed when a particular file cannot be located by the office performing the QA. Specifically, the current QA procedures instruct offices to select a replacement file from an overdraw listing that is provided at the same time as the QA sample whenever a file cannot be readily located and is believed to be at another office. Furthermore, the PMD does not record the applications that have been replaced as errors, and thus these types of errors are not included in the extrapolation of the QA error rate. No follow up procedures are required to locate these files or validate the assumption that they are at another location. We attempted to reperform the sample review by obtaining the files originally selected rather than the replacement files, and noted 18 errors in a total sample of 243.

*Recommendations:*

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

- Develop and implement additional written QA procedures to account for all applications included in the QA queries and require that the status of applications be determined regardless of their physical location; and
- Recompute the error rates previously computed during the prior year (FY 2005) by including missing files previously reported as N/A as errors, in order to maintain accurate records, and to verify that the applicant status per the G/L, is statistically accurate, considering any errors noted in the sample.

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**CIS – FMC 06-03 – Fee receipts are not being deposited in a timely manner per Treasury guidance (NFR No. CIS 06-03)**

Fee receipts are not consistently being deposited in accordance with Treasury guidance. From our sample of 167 naturalization and immigration applications received during FY 2006, the time lapse between the receipt date and the data entry date exceeded one business day for 40 applications (23 percent). However, this is an improvement over the FY 2005 cited noncompliance rate of 43 percent.

*Recommendations:*

We recommend that the Service Center:

- Continue efforts to move the receipt of all Service Center applications and petitions with fees to lockbox operations by the end of FY 2007; and
- Continue monitoring contractor performance through Contractor Performance Analysis Units (CPAUs) and make use of the available remedies under the Federal Acquisition Regulations for noncompliance with contractor requirements.

**CIS – FMC 06-04 – Reengineered Naturalization Application Casework System (RNACS) improperly reflects completed N-400 applications as pending (NFR No. CIS 06-04)**

We selected a sample of 35 N-400s, *Application for Naturalization* reported in the Reengineered Naturalization Application Casework System (RNACS) as pending based on the QA queries for six district offices, of which 18 were in fact completed (51.4 percent). Extrapolation of the error to the total amount of deferred revenue as of June 30, 2006 per RNACS yielded an overstatement of approximately \$2.5 million.

*Recommendations:*

We recommend that the Office of Field Operations:

- Initiate an effort to ‘scrub’ the RNACS data related to N-400 applications in order to identify and resolve all N-400 applications which were re-entered into CLAIMS 4 and were not closed in RNACS, as well as any other N-400 applications which have been completed but have not been properly reflected as such in RNACS; and
- Provide training to district offices on the use of RNACS and updating status procedures.

**CIS – FMC 06-05 – Washington District Office does not enter N-565 and N-600 applications into RNACS until completed (NFR No. CIS 06-05)**

The USCIS Washington District Office does not enter forms N-565, *Application for Replacement Naturalization Citizenship Document* or N-600, *Application for Certification of Citizenship* into RNACS upon receipt and acceptance, in accordance with the practice in other district offices. As a result, over 700 pending applications were not reflected in RNACS as of May 31, 2006, and a related understatement of deferred revenue could occur.

*Recommendations:*

We recommend that the Office of Field Operations:

- Develop and implement a written policy related to the data entry of applications into RNACS, which addresses the timeliness of the data entry; and

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- Provide training to district offices on the use of RNACS and application entry procedures.

**CIS – FMC 06-06 – CLAIMS 3 and 4 are not being updated in a timely manner upon adjudication (NFR No. CIS 06-06)**

The adjudication decision was not updated in CLAIMS 4 in a timely manner for two of 93 naturalization applications tested. In addition, the adjudication decision was not updated in CLAIMS 3 in a timely manner for two of 91 immigration applications tested, and three of the 91 applications could not be located. The untimely updating of CLAIMS 3 and CLAIMS 4 increases the possibility that the number of pending applications at the end of the reporting period may be overstated, thus resulting in the overstatement of deferred revenue.

*Recommendation:*

We recommend that the Office of Domestic Operations incorporate a control to ensure the timely update within CLAIMS 3 and CLAIMS 4 of completed work within its periodic quality assurance reviews.

**CIS – FMC 06-07 – Incorrect fee amounts used in the query for CLAIMS 4 and RNACS cases (NFR No. CIS 06-07)**

During our review of pending naturalization applications in CLAIMS 4 and RNACS, we noted two out of 126 applications and five out of 48 applications, respectively, had the incorrect fee amount associated with the application within the query.

*Recommendation:*

We recommend that the USCIS Office of Financial Management and the Performance Management Division consolidate the tracking of N-400s into the CLAIMS 4 system to use actual fees received to determine deferred revenue balance for pending N-400s.

**CIS – FMC 06-08 – Inconsistent classification within FFMS for purchases of goods and the use of receiving tickets (NFR No. CIS 06-08)**

Management informed us that requisitions for goods are inconsistently classified within the Federal Financial Management System (FFMS). Further, we selected 46 disbursements made on behalf of USCIS in FY 2006, noting that one disbursement against an obligation of the Office of the Chief Information Officer was classified incorrectly as for a service received when the transaction was a purchase of goods.

*Recommendations:*

We recommend that the Financial Management Division:

- Develop and implement controls to monitor the classification of obligations within FFMS; and
- Train FFMS users on its proper use in relation to the purchase and receipt of goods.

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**CIS – FMC 06-09 – Obligations are not being recorded in FFMS in a timely manner (NFR No. CIS 06-09)**

We noted the following regarding FY 2006 disbursements and obligations, indicating certain obligations were not recorded timely:

- The period of performance for four disbursements was prior to the obligation being recorded in FFMS; thus, it appears that services were rendered before the obligation was recorded in FFMS.
- The invoice for two disbursements was received prior to the obligation being recorded in FFMS, which further supports that services were rendered before the obligation was recorded in the general ledger.
- Seven obligation were not recorded in FFMS timely after being awarded by the contracting officer.

*Recommendations:*

We recommend that the Financial Management Division, until the interface between FFMS and PRISM is implemented:

- Assume responsibility for recording all obligations within FFMS;
- Develop and implement controls to monitor timely recording of obligations within FFMS;
- Reconcile all obligations created in PRISM to the general ledger (i.e., FFMS). Specifically, the reconciliation should consist of the identification of differences between obligations created in PRISM and those recorded within FFMS. As differences are identified, management should research the causes and take immediate corrective action

**CIS – FMC 06-10 – Applications not subjected to the QA procedures (NFR No. CIS 06-10)**

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

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

*Recommendations:*

We recommend that the Office of Domestic Operations:

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- Consider the feasibility of tracking all applications in one system or a series of systems that are integrated. By the use of an integrated system, all applications will have the ability to be selected for QA procedures; and
- Until such time that all applications are tracked in one system or a series of integrated systems, implement policies and procedures requiring district offices to perform periodic (i.e., annually or semi-annually) cycle counts for all pending immigration and naturalization applications tracked in 'ad hoc' systems, thus not subjected to QA procedures, and to report the results of the cycle counts to the Financial Management Division providing an actual count of pending applications for use in the deferred revenue calculation.

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**V. IMMIGRATION AND CUSTOMS ENFORCEMENT (ICE)**

**ICE – FMC 06-01 – Inconsistent classification within FFMS for purchases of goods and the use of receiving tickets (NFR No. ICE 06-01)**

Process and control walkthroughs revealed that personnel within the Office of Investigations do not consistently classify goods when a requisition is prepared in FFMS. Instead, items are classified as services or miscellaneous to avoid the receiving ticket requirement. Further, management informed us that personnel in the Detention and Removal Office may still be inconsistently classifying requisitioned goods within FFMS.

*Recommendation:*

We recommend that:

- The Office of Investigations and the Detention & Removal Office adhere to the standard operating procedures issued by the Office of Financial Management related to the processing of vendor invoices;
- The Office of Financial Management develop and implement controls to monitor the execution of its policies and procedures, particularly in the classification of purchase transactions within FFMS; and
- The Office of Financial Management provide additional training to the FFMS users within the Offices of Investigations and Detention and Removal on the proper use of FFMS in relation to the purchase and receipt of goods.

**ICE – FMC 06-02 – Lack of consistency in recording the receipt date on invoices (NFR No. ICE 06-02)**

Process and control walkthroughs with the Office of Intelligence revealed that the date of receipt is not routinely documented on invoices. In addition, out of a sample of 53 disbursements in the first two quarters of FY 2006, 18 were traced to invoices on which the invoice receipt date was not recorded. The invoices were received by various program offices.

*Recommendation:*

We recommend that the ICE Program Offices adhere to the standard operating procedures issued by the Office of Financial Management related to the processing of vendor invoices. Further, we recommend that the Office of Financial Management consider developing a standardized template that can be reproduced by the program offices which would identify the date of receipt before submission to the Dallas Finance Center (DFC) for payment.

**ICE – FMC 06-03 – Untimely execution of reimbursable agreements with other governmental entities when ICE is performing the services (NFR No. ICE 06-05)**

As of June 30, 2006, approximately 43 reimbursable agreements totaling \$59.1 million were in various stages but had not been fully executed. Two of these agreements totaled \$24.3 million or approximately 41 percent of the population. Further, as of June 30, 2006 there were approximately \$20.8 million in unbilled activity on the 43 temporary reimbursable agreements.

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*Recommendation:*

We recommend that the Office of Budget implement policies and procedures which require timely execution of reimbursable agreement, and/or approval for continuation of services under reimbursable agreements that remain in a temporary status due to the lack of a fully executed agreement. For example, authorizing the Office of Budget to approve temporary reimbursement agreements for the first 90 day period of services, authorizing the ICE Chief Financial Officer (CFO) to approve the continuation of services for the next 90 day period, and authorizing the DHS CFO to approve for the continuation of services thereafter.

**ICE – FMC 06-04 – Approval of obligating documents by contracting officer prior to obligating within FFMS needs improvement (NFR No. ICE 06-06)**

We selected 51 obligations recorded in FY 2006 for review, noting one obligation for an interagency agreement (IAA) for which the date of the obligation in FFMS precedes the date of approval by the contracting officer on the hard copy of the obligating document. Thus, the obligation may not have been properly authorized.

*Recommendations:*

We recommend that the Office of Acquisition Management:

- Adhere to its existing policies and procedures regarding the approval of procurement documentation by contracting officers to ensure that authorization occurs prior to the entity's resources being obligated in FFMS; and
- Develop and implement controls to monitor the execution of its policies and procedures, related to contracting officer approval and subsequent obligations recorded in FFMS, to ensure that policies are followed.

**ICE – FMC 06-05 – Untimely disbursement of payments to vendors and incorrect calculation of interest due pursuant to the Prompt Payment Act (NFR No. ICE 06-07)**

Certain disbursements to the vendors of ICE and its customers (i.e., USCIS, Preparedness, MGT, US-VISIT, and S&T) were not made in a timely manner. Specifically, we noted that 25 invoices out of a sample of 252 disbursements subject to the Prompt Payment Act were not paid within 30 days after receipt of a proper invoice. In addition, we noted discrepancies in the calculation of interest penalties that were paid to vendors for late payments. We noted differences in the interest amounts paid for 23 of the 25 invoices, which were not disbursed within 30 days for a total of approximately \$72,000.

*Recommendations:*

We recommend that the Dallas Finance Center, in coordination with the Office of Financial Management at Headquarters:

- Continue to instruct the ICE's program office on the requirements to submit invoices to DFC in a timely manner so that the payments can be made more timely, and thus avoiding the payment of interest, in compliance with the Prompt Payment Act;
- Issue guidance to ICE's customers instructing them on the requirements to submit invoices to DFC in a timely manner;



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- Review and modify, as appropriate, the vendor tables in FFMS on a routine basis to ensure that attributes related to the Prompt Payment Act are accurate, thus allowing vendors who are due prompt payment interest to receive this interest; and
- Continue its analysis to ascertain the amount of underpayment of prompt payment interest to vendors and remit amounts to vendors, as appropriate.

**ICE – FMC 06-06 – Lack of procedures to verify the receipt and acceptance of goods or services for IPAC transactions (NFR No. ICE 06-08)**

ICE does not have procedures to verify the receipt and acceptance of goods or services when disbursements are processed through the IPAC system. Section 4030, *Recording and Reporting Automated Interagency Transactions*, within Part 6, Chapter 4000 of Volume 1 of the *Treasury Financial Manual* states that “each Federal agency’s accounting office must verify the accuracy of the transactions retrieved from the IPAC system.” Also, certain procedures for maintaining documentation underlying IPAC transactions has not been consistently followed. We noted during our disbursement testwork and suspense clearing testwork that files frequently did not contain back-up documentation (i.e., agreement or obligating document), and the files did not contain evidence that the documentation had been requested. Both of these conditions are applicable to ICE transactions and transactions of each of the bureaus for which ICE provides accounting services: USCIS, S&T, Preparedness, US-VISIT, and MGT.

*Recommendations:*

We recommend that:

- The Dallas Finance Center adhere to its existing standard operating procedures for IPAC transactions;
- The Office of Financial Management examine current policies and procedures and enhance as necessary for post validation particularly for receipt and acceptance of goods or services, when disbursements are processed through the IPAC system. The procedures should clearly delineate the responsibilities of the Dallas Finance Center and ICE’s program offices; and
- The Office of Financial Management develop and implement controls to monitor the execution of its policies and procedures, particularly related to IPAC transactions, to ensure that they are being adhered.

**ICE – FMC 06-07 – Obligations are not being recorded in FFMS in a timely manner (NFR No. ICE 06-09)**

We noted the following regarding FY 2006 disbursements and obligations, indicating certain obligations were not recorded timely:

- The period of performance for eight disbursements was prior to the obligation being recorded in FFMS; thus, it appears that services were rendered before the obligation was recorded in FFMS.
- The invoice for 13 disbursements was received prior to the obligation being recorded in FFMS, which further supports that services were rendered before the obligation was recorded in the general ledger.
- One obligation was not recorded in FFMS timely after being awarded by the contracting officer.

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Further, in FY 2006 DFC was unable to pay some invoices presented for payment or post transactions in the suspense account as a result of insufficient funding remaining available on certain obligations.

*Recommendations:*

We recommend that all program offices and the Office of Acquisition Management:

- Adhere to the existing policies and procedures to ensure that all obligations are entered into FFMS timely and prior to the period of performance or the receipt of any goods and/or services by the agency; and
- Consider the feasibility of using the Procurement Information System for Management (PRISM) for all procurement needs of the entity.

We also recommend that the Office of Financial Management, in coordination with the Office of Acquisition Management:

- Continue its efforts to implement an interface between PRISM and FFMS;
- Develop and implement policies, procedures and controls to ensure the complete and accurate recording of all obligations within FFMS. These procedures should clearly delineate the responsibilities for authorizations and recording; and
- Issue formal policies and procedures that outline steps to appropriately reconcile all obligations created in PRISM and any other procurement tracking systems, whether automated or manual, to the general ledger (i.e., FFMS). Specifically, the reconciliation should consist of the identification of differences between obligations created in PRISM, and all non-procurement actions created in other systems, as compared to the obligations recorded within FFMS. As differences are identified, management should research the causes and take corrective action, to properly state obligations in the financial statements

**ICE – FMC 06-08 – Discrepancies with the leave balances between the NFC records and STAR reports are not being researched and resolved timely (NFR No. ICE 06-10)**

We identified several instances in which annual leave and sick leave hours reported by the National Finance Center (NFC) did not agree to the annual and sick leave hours recorded in the System Time and Attendance Report (STAR) database. For those differences identified, we requested evidence (i.e., leave audits) of measures taken to correct the balance. Differences in the leave balances between the NFC records and STAR reports are not being researched and resolved timely. We noted that these errors remained outstanding over five pay periods subsequent to being identified.

*Recommendations:*

We recommend that the timekeepers adhere to existing policies and procedures by performing leave audits when discrepancies are reported by NFC and timely research and resolve the differences. We also recommend that the Office of Human Resources:

- Require all timekeepers to perform the procedures outlined in the *ICE Summary of Leave Audit Procedures*; and
- Develop and implement controls to monitor the execution of these policies and procedures, particularly related to leave audits, to ensure that they are being followed.

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**ICE – FMC 06-09 – Untimely resolution of issues identified during the reconciliation of the SF-132 and SF-133 (NFR No. ICE 06-12)**

Differences identified during the reconciliation of the SF-132 and SF-133 for ICE were not resolved timely in fiscal year 2006. Reconciling differences were noted for four Treasury Fund Symbols in the reconciliation performed for the month of December 2005, and then continued to exist, and in some cases increased, during the reconciliations performed for the months of March 2006, June 2006, and August 2006.

*Recommendations:*

We recommend that the Office of Budget and Performance Management:

- Adhere to the existing procedures by taking the appropriate corrective action to timely resolve differences identified as a result of the SF-132/SF-133 reconciliations; and
- Consider expanding upon its responsibilities outlined in the existing policy and procedures to include, revisions to the SF-132 if necessary, defining the person responsible for reviewing the reconciliation, and how the review of the reconciliation is to be documented.

We also recommend that the Office of Financial Management adhere to the existing procedures by notifying the CFO if necessary actions to correct or resolve discrepancies are not completed within 30 days of issuance of the spreadsheet.

**ICE – FMC 06-10 – Payroll Interface Errors (NFR No. ICE 06-13)**

Although there has been a decrease in the volume of interface errors within both the Bi-Weekly Analysis and Reporting (BEAR) and Centralized Accounting Database Inquiry (CADI) files since FY 2004, the volume of errors that occurred in FY 2006 is still an indicator that invalid payroll data continue to be submitted and processed. While the volume for some entities decreased and some increased from FY 2005 to FY 2006, there was an overall increase of 23 percent for all entities related to the BEAR files and an overall decrease of 4 percent related to the CADI files.

*Recommendations:*

We recommend that ICE management:

- Consider the feasibility of configuring STAR so that it only accepts valid budget/object codes which have been previously established in the FFMS payroll maintenance tables. In the absence of such configuration, management should consider instructing timekeepers to verify the validity of such codes in the FFMS payroll maintenance tables prior to the transmission of the data in STAR to NFC; and
- Implement a means of communicating valid budget/object codes for time reporting in the current year and re-emphasize the importance of using the proper codes to all personnel as well as performance of a thorough review of the timesheet codes by supervisors.

**ICE – FMC 06-11 – Presence of abnormal balances and analytic differences (NFR No. ICE 06-14)**

We performed a review of the proprietary and budgetary accounts for ICE and each of its accounting service customers (i.e., USCIS, S&T, Preparedness, US-VISIT, and MGT). This analysis disclosed abnormal balances in various proprietary and budgetary accounts at the fund symbol level. Further, certain expected analytic relationships between the proprietary and

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budgetary accounts are out of balance. While the volume and size of such abnormal balances and analytic differences has been reduced from FY 2005, many of the accounts that continue to have material abnormal balances or unusual analytic relationships have carried forward from prior years. This could be an indication that prior year data quality issues continue to influence the nature of the abnormal balances and unusual analytic relationships. The continued existence of these differences may also indicate that some routine transaction processing and free-form journal entries may continue to generate abnormal balances and unusual analytic relationships.

*Recommendations:*

We recommend that the Office of Financial Management:

- Continue its efforts to analyze the current abnormal balances and analytic differences to identify the reason for such balances and record adjustments to correct differences, and implement policies and procedures, as appropriate; and
- Continue to work with its accounting service customers to leverage their knowledge of their respective businesses and operations as much as possible. While the customers may have the primary responsibility to enter obligations into FFMS, ICE OFM has the responsibility to record all subsequent events and transactions, thus a joint effort is necessary.

**ICE – FMC 06-12 – Elimination differences resolved by recording transactions to either another Federal entity (i.e., GSA) or as non-Federal (NFR No. ICE 06-15)**

We reviewed both free-form general journal entries and entries to correct TIER fatal errors, noting that elimination differences between intra-bureau and intra-DHS transactions were cleared by posting the transaction to either another Federal entity (i.e., General Services Administration (GSA)) or as non-Federal. The necessity to make general journal entries to resolve elimination issues is an indicator that procedures to reconcile intra-bureau and intra-departmental transactions are inadequate. The clearing of elimination differences in this manner was not only noted for ICE but also for the DHS entities for which ICE provides accounting services. For example, a TIER fatal error in one TAFS for the period ended August 31, 2006 was cleared for ICE by reclassifying approximately \$57 million in expenses to GSA.

*Recommendations:*

We recommend that the Office of Financial Management:

- Adhere to policies and procedures outlined in Section 9 of the *FY 2006 Performance and Accountability Report (PAR) Guidance* to properly research and resolve eliminating differences related to intra-bureau and intra-departmental transactions; and
- Continue to perform additional analysis over pairing differences to ensure that transactions are being posted to the appropriate trading partner. Once the trading partner for a transaction can be reasonably assigned and properly supported, an adjusting entry should be recorded, reviewed, and authorized by the appropriate personnel.

**ICE – FMC 06-13 – Insufficient review of financial data prior to submission to the Department (NFR No. ICE 06-16)**

The reviews of financial data prior to submission to the Department are not sufficiently detailed to identify significant misstatements. During year-end testing, we identified that the actuarial

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FECA liability as of September 30, 2006 for ICE had been overstated by approximately \$148 million. The improper entry increased the account balance by approximately 98 percent from the prior year, which should have been identified in a detailed review. Further research determined that a journal entry had been incorrectly developed, leading to a significant overstatement of the account.

*Recommendation:*

We recommend that the Office of Financial Management implement qualitative as well as quantitative reviews of the financial data to identify significant balances or account fluctuations that are unusual and could have a material impact on the financial statements if uncorrected. Month-to-month and year-end fluctuation analysis should be implemented as a mechanism to identify material changes during a reporting period. Changes that exceed the predetermined materiality threshold should be researched and assessed for accuracy.

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## VI. MANAGEMENT DIRECTORATE (MGT)

### **MGT – FMC 06-01 – Obligations entered into by a potentially unauthorized contracting officer (NFR No. MGT 06-04)**

We reviewed 56 obligations entered in FY 2006, of which two obligating documents were authorized by contracting officers not included in the listing of authorized contracting officers provided to us. Thus, we were unable to determine whether the obligations were properly authorized.

*Recommendations:*

We recommend that the DHS Office of Procurement Operations

- Develop and implement controls to ensure that only authorized contracting officers can approve contractual agreements; and
- Update the list of warranted contracting officers at least quarterly.

### **MGT – FMC 06-02 – Recording and recognizing capitalized purchases for the Working Capital Fund (NFR No. MGT 06-05)**

Based on approved funding levels and expenditures for some Working Capital Fund (WCF) activities, there could have been costs which were over the Department's capitalization threshold that were inappropriately expensed. Further, the following issues were cited as factors which may have contributed to the condition:

- The systems involved in the property management and financial reporting processes are not fully integrated, therefore, manual reviews are relied upon to identify assets that should be capitalized. For example:
  - MGT personnel rely on reviews of purchase orders and contracts in order to identify acquired property and equipment. However, many WCF activities are established through reimbursable agreements, intra-agency agreements, memoranda of understanding, and designation agreements which were not included in the documents reviewed.
  - MGT personnel noted that they often identify errors in the coding of object classes in the accounting system, which hinder their ability to identify assets in the accounting system which should be recorded in Sunflower (capitalized).
  - WCF personnel at the consolidated level indicated that it is the responsibility of WCF program managers to inform ICE and the WCF about the procurement of assets. However, it does not appear that there is an effective communication system to facilitate this policy.
- The current property management directive does not include details related to the capitalization and recording of internal use software.

*Recommendations:*

We recommend that Finance and Business Operations continue its efforts, in coordination with ICE as appropriate, to:

- Revise the property management directive to include details related to the capitalization and recording of internal use software;

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- Complete a review and reconciliation of source documents to ensure assets of the WCF (i.e., FFMS) and the property (i.e., Sunflower) systems are properly capitalized and without material misstatement in the general ledger as of September 30, 2006; and
- Train all affected personnel on the proper use and coding of transactions by object class within the accounting system.

**MGT – FMC 06-03 – Control procedures to verify and validate undelivered orders balances were not performed (NFR No. MGT 06-06)**

The Management Directorate did not perform control procedures to verify and validate undelivered orders balances during FY 2006.

*Recommendation:*

We recommend that the Departmental Operations management implement policy and procedures to either participate in the quarterly verification and validation (V&V) initiated by ICE OFM or perform its own control procedures to verify and validate undelivered orders balances, on a timely basis throughout the year.

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**VII. PREPAREDNESS DIRECTORATE (PRE)**

**PRE – FMC 06-01 – Obligations not recorded in FFMS timely (*NFR No. PRE 06-01*)**

We selected 51 obligations entered during FY 2006 for review, of which five were not recorded timely into the general ledger once approved by the contracting officer.

*Recommendations:*

We recommend that the Finance Branch perform the following, until the interface between FFMS and PRISM is implemented:

- Adhere to the existing policies and procedures to ensure that all obligations are entered into FFMS timely and prior to the receipt of any goods and/or services by the agency;
- Develop and implement controls to monitor the performance of procedures related to the timely recording of obligations within FFMS; and
- Reconcile all obligations created in PRISM to the general ledger (FFMS). Specifically, the reconciliation should consist of the identification of differences between obligations created in PRISM and those recorded within FFMS. As differences are identified, management should research the causes and take immediate corrective action.



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## VIII. SCIENCE AND TECHNOLOGY DIRECTORATE (S&T)

### **S&T – FMC 06-01 – Policy for assessment, management and reporting of environmental liabilities (NFR No. S&T 06-01)**

Although S&T implemented procedures related to the assessment, management and reporting of environmental liabilities within S&T, such policies and procedures have not been formally documented. Further S&T management, within its corrective action plan for environmental liabilities, acknowledged that its policies and procedures may be inadequate or incomplete and that there may be unclear program oversight and accountability for the financial responsibilities.

*Recommendations:*

We recommend that S&T management:

- Formally document its policies and procedures related to environmental liabilities. Further, these policies and procedures should be updated, as necessary, if DHS develops and implements a department-wide management directive for environmental liabilities; and
- Develop and implement controls to monitor the performance of procedures related to environmental liabilities.

### **S&T – FMC 06-02 – Improvement of the approval process of obligating documents by the contracting officer prior to obligating within FFMS (NFR No. S&T 06-02)**

We performed testwork over 39 obligations made during FY 2006, noting that one obligating document lacked a signature approval. Thus, we were unable to determine whether the obligation was properly authorized.

*Recommendations:*

We recommend that the Budget Execution and Finance Team (BEFT):

- Develop and implement policies and procedures to ensure that proper authorization and approval of obligations occur prior to recording the obligation in FFMS; and
- Develop and implement controls to monitor the performance of procedures, particularly related to contract approval and subsequent obligation into FFMS.

### **S&T – FMC 06-03 – Obligations are not being recorded in FFMS timely (NFR No. S&T 06-03)**

We performed testwork over 39 obligations made during FY 2006, of which seven were not recorded timely into the general ledger once approved by the contracting officer.

*Recommendations:*

We recommend that the Budget Execution and Finance Team (BEFT)

- Develop and implement policies and procedures to ensure the complete and accurate recording of all obligations within FFMS. These procedures should clearly delineate the responsibilities for authorizations and recording; and
- Develop and implement controls to monitor the performance of procedures, particularly related to contract approval and subsequent obligation into FFMS.

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**S&T – FMC 06-04 – Control procedures to verify and validate undelivered orders balances were not performed (NFR No. S&T 06-04)**

The S&T Directorate did not perform control procedures to verify and validate (V & V) undelivered orders balances during FY 2006.

*Recommendation:*

We recommend that S&T management implement policies and procedures to either participate in the quarterly V&V initiated by ICE OFM or perform its own control procedures to verify and validate undelivered orders balances.

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**IX. US-VISIT DIRECTORATE (USV)**

**USV – FMC 06-01 – Inconsistent classification within FFMS for purchases of goods and the use of receiving tickets (NFR No. USV 06-01)**

Management informed us that requisitions for goods are inconsistently classified within the Federal Financial Management System (FFMS). Further, we selected 32 disbursements made on behalf of USV in FY 2006, noting that five purchases were classified incorrectly as a service received when the transaction was a purchase of goods.

*Recommendations:*

We recommend that the USV Budget & Finance Branch:

- Adhere to the standard operating procedures issued by the Dallas Finance Center related to the processing of vendor invoices;
- Develop and implement controls to monitor the accounting service providers performance of procedures, particularly in the classification of purchase transactions within FFMS; and
- Obtain additional training for its FFMS users from its accounting service provider on the proper use of FFMS in relation to the purchase and receipt of goods.

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**X. TRANSPORTATION SECURITY ADMINISTRATION (TSA)**

**TSA – FMC 06-01 – Prepared by client (PBC) submissions (NFR No. TSA 06-01)**

As of July 31, 2006, 49 percent of PBC items requested by the financial audit team were received late or were overdue. As of September 19, 2006, this percentage was 53%. As of July 31, 2006, 100 percent of PBC items requested by the information technology (IT) audit team were received late or were overdue. As of September 19, 2006, this percentage was 65%. The number of late financial submissions increased as TSA approached its fiscal year end. Although progress was made on IT items and certain additional requests, we noted that multiple outstanding PBC requests still exist, especially items that have been on the PBC list since it was first provided. Several PBC items have also been of poor quality requiring revision.

Although some progress was made close to the end of the fiscal year, overall TSA did not effectively communicate during the year when the untimely submission of PBC items may occur, did not propose new deadlines to meet both parties' needs, and/or waited to request deadline extensions for PBC items until they became overdue.

*Recommendations:*

We recommend that TSA management

- Improve communications with the responsible TSA offices who are preparing/providing PBC items;
- Implement a quality control system to review PBC items prior to submission to the auditors; and
- Communicate, via the audit liaison, PBC item delays as soon as they are known and provide an alternative receipt date based on consultation with the auditors.

**TSA – FMC 06-02 – Human resources document retention (NFR No. TSA 06-04)**

We performed human resources control testwork over 61 sample items for the period October 1, 2005 through June 30, 2006, and noted the following:

- Five Federal Air Marshals Service (FAMS) employees were improperly recorded on the TSA employee listing. The official personnel files (OPFs) were properly transferred to FAMS, but the TSA human resources employee listing was not updated.
- Three sample items did not contain all of the required documentation for the retirement election documentation SF-3109 *Election of Coverage for Retirement (CSRS or FERS)*.
- Two sample items did not contain all of the required documentation for the SF-2817 *Federal Employees' Group Life Insurance (FEGLI) Life Insurance Election*.
- One file selected did not contain the offer letter according to OPM's *Guide of Personnel Recordkeeping*.
- The offer letters for four sample items did not agree with the initial salary recorded on the SF-50 *Notice of Personnel Action*.
- Two sample items did not contain the correct life insurance election form (SF-2817) in the OPF.

*Recommendations:*

We recommend that TSA develop and implement policies and procedures to ensure:

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- Salaries are correctly stated on offer letters;
- Human resource documentation and records are adequately maintained in accordance with OPM's *Guide of Personnel Recordkeeping*; and
- TSA and FAMS employee listings are complete and accurate.

**TSA – FMC 06-03 – Recoveries of prior year obligations (NFR No. TSA 06-07)**

TSA's accounting system does not have the functionality to record obligations recovered at the transaction level.

*Recommendation:*

We recommend that TSA continue working with its accounting service provider to fully implement programming logic in the general ledger to capture and report prior year recoveries at the transaction level.

**TSA – FMC 06-04 – FEGLI compliance (NFR No. TSA 06-15)**

Our testwork identified two of 57 sample items where the Life Insurance Election form (SF-2817) did not agree with deductions reported in the NFC master record, as follows:

- For one sample item, the SF-2817 indicated that the employee elected basic coverage, with option a, and option b with a multiple of 2, but the NFC master record indicated that the employee elected basic coverage only. As a result, the employee paid less than the proper amount owed for the level of coverage selected. The error was \$2.56 per pay period.
- For one sample item, the SF-2817 indicated that the employee elected basic coverage and option a, but the NFC master record indicated that the employee elected basic, option b with a multiple of 3. As a result, the employee paid less for a different level of insurance than what was elected. This error was \$0.90 per pay period.

*Recommendation:*

We recommend that TSA correct the errors identified above and complete its efforts to correct processing errors created by its previous human resources services provider as soon as possible.

**TSA – FMC 06-05 – Required Supplementary Stewardship Information (RSSI) (NFR No. TSA 06-17)**

We noted that TSA's FY 2006 Required Supplementary Stewardship Information (RSSI), specifically investments in human capital and research and development, did not report outcomes and outputs as required by OMB Circular No. A-136.

*Recommendation:*

We recommend that TSA develop and implement procedures to create and track relevant outcomes and outputs and report them as part of RSSI.

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**XI. UNITED STATES SECRET SERVICE (Secret Service)**

**USSS – FMC 06-01 – Seized counterfeit currency inventory (NFR No. USSS 06-01)**

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

- During the physical inventory at the Miami field office, we noted that there were almost 40 write-ins of in-evidence (IE) counterfeit currency that were in the vault but were not on the inventory listing. Many items pre-date the inventory system, however nearly half were from 2005 and 2006. We also noted that there was a piece of evidence that was in an unlabeled box, that had a SSF-1544, *Certified Inventory of Evidence* attached to it. Three IE counts did not match the count sheets, and the not-in-evidence (NIE) counts for both months tested did not match the inventory listings. Finally, one item on the count sheets was not in the vault. It was determined that the file was closed on March 31, 2006, however the system did not reflect this change nearly four months later.
- During our observation of the IE inventory in the New York field office, there were three items on the inventory listing that could not be located in the vault. One IE count was off by six notes; however, the SSF-1544 stated that the change was made in October 2004. The change was not reflected on the inventory listing as of June 2006. NIE counts for both of the months tested were slightly off.

*Recommendations:*

We recommend that USSS field offices:

- Ensure that inventory changes are reflected in the inventory system in a timely manner; and
- Ensure that cases are properly entered into the inventory system in a timely manner.

**USSS – FMC 06-02 – Seized counterfeit currency reporting (NFR No. USSS 06-02)**

We noted that the Counterfeit Currency System (CCS) does not conform to Joint Financial Management Improvement Program (JFMIP) standards. Specifically, CSS does not provide accurate and timely reconciliations between the physical records maintained at field offices and the system. To compensate for the system limitations, USSS started a reconciliation spreadsheet to track the transfers, changes, seizures, and destructions of counterfeit currency. However, due to the timing of the receipt of these spreadsheets, they could not be audited prior to the department's reporting deadlines. Specifically, the June 2006 reconciliation was provided two months after the requested due date. Accordingly, we were unable to complete substantive procedures to the changes by location in CSS and therefore, we were unable to rely on the system generated number for year-end reporting.

*Recommendations:*

We recommend that the:

- Forensic Services Division (FSD) and Financial Management Division (FMD) continue working with the field offices to ensure they are aware of the new reconciliation process and the timeframe for submitting information; and
- FSD continue to strengthen the seized property reporting process so that the monthly reconciliations are completed in a timely manner.

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**XII. CONSOLIDATED (CONS)**

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			PAR		FMC	
			MW	RC	Page	No.
CONS	06-01	Performance and Accountability Report guidance	B			
CONS	06-02	Statement of net cost allocations	B			
CONS	06-03	Prepared by client submissions	A			
CONS	06-04	Earmarked funds (SFFAS No. 27 implementation)	A			
CONS	06-05	March 2006 financial statement review	B			
CONS	06-06	FY2006 beginning balances reconciliation	B			
CONS	06-07	Audit requirements	B	R		
CONS	06-08	Restatements	A			
CONS	06-09	Number not used	Not applicable			
CONS	06-10	Desk officer monitoring	A, B			
CONS	06-11	Legal letter	A			
CONS	06-12	Imputed financing sources	B			
CONS	06-13	Financial Statement Checklist	B			
CONS	06-14	Presentation of earmarked funds	A			
CONS	06-15	June PAR	B			
CONS	06-16	Roles and responsibilities	A			
CONS	06-17	Fund symbols review	B			
CONS	06-18	Management directives	A			
CONS	06-19	Financial Statement and Supporting documentation review	B			
CONS	06-20	Debt Collection Improvement Act (DCIA)	B	T		
CONS	06-21	Preparation of the department legal letter and mgt schedule	A, G			
CONS	06-22	Management representation letter	A, B			
CONS	06-23	Controls over the intra-governmental eliminations process	A, J			
CONS	06-24	Top-side adjustments	B			
CONS	06-25	OMB Circular A-50, entity level controls, financial reporting	A	P, T		
CONS	06-26	Entity level controls	A			
CONS	06-27	Improper Payment Act compliance		Q		
CONS	06-28	Configuration of Transaction by Elimination Pairs (TEP) report	J			
CONS	06-29	Monitoring of laws and regulations	A			
CONS	06-30	Government Performance and Results Act (GPRA)		S		
CBP	06-01	Verification of CPL and certification of payments			4	06-01
CBP	06-02	Detection of excessive drawback claims		L		
CBP	06-03	Insufficient retention period for documents that support drawback claims		L		
CBP	06-04	ACS deficiency over the accumulation of claims against a drawback bond			4	06-02
CBP	06-05	ACS deficiencies over non-entity account receivable and CBP's ability to effectively monitor collection actions			4	06-03



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			PAR		FMC	
			MW	RC	Page	No.
CBP	06-06	Compliance with FFMIA		N		
CBP	06-07	Implementation of SFFAS No. 4, Interpretation No. 6			9	06-13
CBP	06-08	Drawback record keeping deficiency			5	06-04
CBP	06-09	Various findings during FY2006 drawback control testwork			5	06-05
CBP	06-10	Failure to complete full desk reviews and supervisory reviews before deem liquidation			5	06-06
CBP	06-11	Review of prior related drawback claims		L		
CBP	06-12	Unable to obtain UCE's for drawback			9	06-14
CBP	06-13	Duplicate payment of the same drawback claim		L		
CBP	06-14	Lack of formal procedures for Strategic Trade Centers (STC)			6	06-07
CBP	06-15	Absence of a full desk review (FDR) for protested drawback claims			6	06-08
CBP	06-16	ACS selectivity for underlying consumption entries		L		
CBP	06-17	Insufficient evaluation criteria for account managers			6	06-09
CBP	06-18	Weaknesses in review of weekly and monthly entry edit reports			7	06-10
CBP	06-19	Overpayment of drawback claim due to ACS/deem liquidation		L		
CBP	06-20	In-bond compliance review process		L		
CBP	06-21	Financial statement presentation			9	06-15
CBP	06-22	Customs bonded warehouses foreign trade zone process deficiencies		L		
CBP	06-23	Weakness in the Compliance Measurement Program		L		
CBP	06-24	Property, plant, and equipment FY2005 misstatement			8	06-11
CBP	06-25	Weaknesses in the management of environmental liabilities			8	06-12
CBP	06-26	Improper Payment Act compliance		Q		
FEMA	06-01	Lack of segregation of duties related to preparation and approval of journal vouchers			11	06-01
FEMA	06-02	Ineffective controls over processing mission assignment payments			11	06-02
FEMA	06-03	Non-compliance with DHS Management Directive 0480.1 - <i>Ethics/Standards of Conduct</i>			11	06-03
FEMA	06-04	Mission assignment obligations in excess of the agreement			12	06-04
FEMA	06-05	Statement of Net Cost (SNC) allocation methodology			15	06-12
FEMA	06-06	Untimely clearing of items from the suspense account			12	06-05
FEMA	06-07	Lack of current Anti-deficiency Act policies and procedures			12	06-06
FEMA	06-08	Unavailability of supporting documentation for certain financial transactions			13	06-07
FEMA	06-09	Untimely de-obligation of mission assignments	I			
FEMA	06-10	Recording of transactions in Fund 36			19	06-21
FEMA	06-11	Unavailability of supporting documentation for undelivered orders			13	06-08
FEMA	06-12	Unavailability of supporting documentation for the reporting of internal use software and internal use software in development			13	06-09

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Bureau	NFR No.	Description	Disposition			
			PAR		FMC	
			MW	RC	Page	No.
FEMA	06-13	Lack of segregation of duties in accounting for the loan program and inadequate support for the subsidy rate calculation			14	06-10
FEMA	06-14	Various findings related to testwork over OMB A-133 and A-50		P		
FEMA	06-15	Compliance with the Debt Collection Improvement Act of 1996		T		
FEMA	06-16	Incomplete Year-end Accounts Payable Accrual Related to Mission Assignments	G, I			
FEMA	06-17	Recognition of National Flood Insurance Program (NFIP) flood claim obligations			15	06-11
FEMA	06-18	Impact of the Department of Health & Human Services (HHS) SAS 70 report	I			
FEMA	06-19	FMFIA - Section 2		M		
FEMA	06-20	Non-compliance with the Improper Payment Improvement Act		Q		
FEMA	06-21	FMFIA - Section 4		M		
FEMA	06-22	Review for property, plant, and equipment acquired at fiscal year-end			15	06-13
FEMA	06-23	Timely and accurate recording of manufactured housing property in LIMS			16	06-14
FEMA	06-24	Legal letter	G			
FEMA	06-25	Incomplete year-end accounts payable accruals related to fire grants			17	06-15
FEMA	06-26	Untimely processing of IPAC transactions in Treasury account fund symbol (TAFS) 7050711			17	06-16
FEMA	06-27	Improving certain processes related to the National Flood Insurance Program at FEMA	G			
FEMA	06-28	Improving Flood Insurance Processes Related to Accelerated Financial Reporting Deadlines			17	06-17
FEMA	06-29	Lack of formal policies and procedures for entity level controls, financial reporting, and funds management			18	06-18
FEMA	06-30	Lack of validation procedures over accounts payable accruals			18	06-19
FEMA	06-31	Temporary adjustments to Fund Balance with Treasury reconciling differences			18	06-20
G&T	06-01	See Information Technology Management Letter	Not applicable			
G&T	06-02	See Information Technology Management Letter	Not applicable			
G&T	06-03	See Information Technology Management Letter	Not applicable			
G&T	06-04	See Information Technology Management Letter	Not applicable			
G&T	06-05	See Information Technology Management Letter	Not applicable			
G&T	06-06	See Information Technology Management Letter	Not applicable			
G&T	06-07	See Information Technology Management Letter	Not applicable			
G&T	06-08	Grants not closed timely			20	06-01
G&T	06-09	Financial monitoring of grants awarded by the Office of State and Local Government Coordination and Preparedness	G	P		
G&T	06-10	Number not used	Not applicable			
G&T	06-11	Number not used	Not applicable			
G&T	06-12	See Information Technology Management Letter	Not applicable			

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Bureau	NFR No.	Description	Disposition			
			PAR		FMC	
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G&T	06-13	Improvements needed in controls over grants payable estimation process	G			
G&T	06-14	Withdrawn	Not applicable			
G&T	06-15	FedShare error rate analysis is not performed			20	06-02
G&T	06-16	Number not used	Not applicable			
G&T	06-17	Untimely deobligation of non-grant UDOs			21	06-03
CIS	06-01	Quality assurance analysis requirement			22	06-01
CIS	06-02	Insufficient QA procedures related to the search for missing files			22	06-02
CIS	06-03	Fee receipts are not being deposited in a timely manner per Treasury guidance			23	06-03
CIS	06-04	RNACS improperly reflects completed N-400 applications as pending			23	06-04
CIS	06-05	Washington District Office does not enter N-565 and N-600 applications into RNACS until completed			23	06-05
CIS	06-06	CLAIMS 3 and CLAIMS 4 are not being updated in a timely manner upon adjudication			24	06-06
CIS	06-07	Incorrect fee amounts used in the query for CLAIMS 4 and RNACS			24	06-07
CIS	06-08	Inconsistent classification within FFMS for purchases of goods and the use of receiving tickets			24	06-08
CIS	06-09	Obligations are not being recorded in FFMS in a timely manner			25	06-09
CIS	06-10	Applications not subjected to the QA procedures			25	06-10
ICE	06-01	Inconsistent classification within FFMS for purchases of goods and the use of receiving tickets			27	06-01
ICE	06-02	Lack of consistency in recording the receipt date on invoices			27	06-02
ICE	06-03	Number not used	Not applicable			
ICE	06-04	Documentation to support obligation and disbursement transactions were not readily available	I			
ICE	06-05	Untimely execution of reimbursable agreements with other governmental entities when ICE is performing the services			27	06-03
ICE	06-06	Approval of obligating documents by a contracting officer prior to obligating within FFMS needs improvement.			28	06-04
ICE	06-07	Untimely disbursement of payments to vendors and incorrect calculation of interest due pursuant to the Prompt Payment Act			28	06-05
ICE	06-08	Lack of procedures to verify the receipt and acceptance of goods or services for IPAC transactions			29	06-06
ICE	06-09	Obligations are not being recorded in FFMS in a timely manner			29	06-07
ICE	06-10	Discrepancies with the leave balances between the NFC records and STAR reports are not being researched and resolved timely			30	06-08
ICE	06-11	Valuation of FPS obligations recorded in FFMS	I			
ICE	06-12	Untimely resolution of issues identified during the reconciliation of the SF-132 and SF-133			31	06-09
ICE	06-13	Payroll interface errors			31	06-10

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Bureau	NFR No.	Description	Disposition			
			PAR		FMC	
			MW	RC	Page	No.
ICE	06-14	Presence of abnormal balances and analytic differences			31	06-11
ICE	06-15	Elimination differences resolved by recording transactions to either another Federal entity (i.e. GSA) or as non-Federal			32	06-12
ICE	06-16	Insufficient review of financial data prior to submission to the Department			32	06-13
MGT	06-01	Inconsistent classification within FFMS for purchases of goods and the use of receiving tickets	I			
MGT	06-02	Documentation to support procurement transactions were not readily available	I			
MGT	06-03	Obligations are not being keyed into FFMS in a timely manner	I			
MGT	06-04	Obligations entered into by potentially unauthorized contracting officer			34	06-01
MGT	06-05	Recording and recognizing capitalized purchases for the Working Capital Fund (70X4640)			34	06-02
MGT	06-06	Control procedures to verify and validate undelivered order balances were not performed			35	06-03
PRE	06-01	Obligations not recorded in FFMS timely			36	06-01
S&T	06-01	Policy for assessment, management and reporting of environmental liabilities			37	06-01
S&T	06-02	Improvement of the approval process of obligating documents by the contracting officer prior to obligating within FFMS			37	06-02
S&T	06-03	Obligations are not recorded in FFMS timely			37	06-03
S&T	06-04	Control procedures to verify and validate undelivered orders balances were not performed.			38	06-04
USV	06-01	Inconsistent classification within FFMS for purchases of goods and the use of receiving tickets			39	06-01
USV	06-02	Documentation to support procurement transactions were not readily available	I			
USV	06-03	Control procedures to verify and validate undelivered orders balances were not performed	I			
USV	06-04	Controls over internal use software and software-in-development need improvement	E			
TSA	06-01	Prepared by client (PBC) submissions			40	06-01
TSA	06-02	Grant accrual methodology	G			
TSA	06-03	Untimely analysis of beginning balance impact of aviation security fee treatment	B			
TSA	06-04	Human resources document retention			40	06-02
TSA	06-05	Inadequate closing procedures for June 30, 2006	B			
TSA	06-06	Property and equipment reconciliations and misstatements	E			
TSA	06-07	Recoveries of prior year obligation			41	06-03
TSA	06-08	Annual Leave File	G			

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TSA	06-09	Implementation of SSFAS No. 4, Interpretation No. 6 - Imputed Financing	B			
TSA	06-10	Grant monitoring and compliance with OMB Circular No. A-133	G	P		
TSA	06-11	Journal voucher preparation and approval	B			
TSA	06-12	Interim undelivered orders (UDO) testing	I			
TSA	06-13	Improper Payment Act compliance		Q		
TSA	06-14	Debt Collection Improvement Act (DCIA) compliance		T		
TSA	06-15	FEGLI compliance			41	06-04
TSA	06-16	Year end close	B			
TSA	06-17	Required Supplementary Stewardship Information (RSSI)			41	06-05
TSA	06-18	FFMIA non-compliance		N		
USCG	06-01	Coast Guard - actuarial post-employment travel liability	H, I			
USCG	06-02	PP&E repairables	E			
USCG	06-03	Oil Spill Liability Trust Fund - closed as of 9/30/06	Not applicable			
USCG	06-04	Coast Guard operating materials & supplies	F			
USCG	06-05	Statement of net cost	B			
USCG	06-06	PP&E small boats	E			
USCG	06-07	Reconciliation of actuarial file to payroll file	H			
USCG	06-08	Environmental liabilities - vessel review		K		
USCG	06-09	Contracting officer warrant authority	I			
USCG	06-10	Cumulative results of operations analysis	B			
USCG	06-11	FFMIA non-compliance - cancelled appropriations	B	N		
USCG	06-12	Accounts payable accrual - methodology	G			
USCG	06-13	UDO validation & verification process	I			
USCG	06-14	Review of prior year medical obligations/expenditure	H			
USCG	06-15	Environmental liabilities - shore facilities		K		
USCG	06-16	Aircraft depreciation asset records	E			
USCG	06-17	PP&E non-construction in process (CIP) assets	E			
USCG	06-18	Environmental liability - lighthouses		K		
USCG	06-19	PP&E building & structures	E			
USCG	06-20	Actuarial pension - laws, regulations and assumptions	H			
USCG	06-21	Authorization & recording of budget authority	D, I			
USCG	06-22	Management review of Financial statement disclosures	B			
USCG	06-23	Accounts payable accrual validation	G			
USCG	06-24	PP&E construction in process (CIP)	E			
USCG	06-25	Support for military and civilian payroll - FBwT	D, G	N		
USCG	06-26	Opening general ledger account balances	B			

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Bureau	NFR No.	Description	Disposition			
			PAR		FMC	
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USCG	06-27	Environmental liability – small arms firing ranges		K		
USCG	06-28	FFMIA non-compliance: ALMIS chart of accounts	B	N		
USCG	06-29	Oracle fixed assets records	E			
USCG	06-30	DoD medical invoices	H			
USCG	06-31	Actuarial medical and IBNR Liability - unsupported medical data	H			
USCG	06-32	Actuarial pension - experience study	H			
USCG	06-33	US Navy reclassification	H			
USCG	06-34	DoD medical invoices	H			
USCG	06-35	Accounts receivable	B			
USCG	06-36	Asset identification	E			
USCG	06-37	Abnormal general ledger account balances	B			
USCG	06-38	Commitments	I			
USCG	06-39	Environmental liability – summary	K			
USCG	06-40	Suspense accounts	D			
USCG	06-41	Actuarial pension - personnel data records	H			
USCG	06-42	Yard assets	E			
USCG	06-43	FFMIA non-compliance – NESSS chart of accounts	B	N		
USCG	06-44	Purchase request numbers	I			
USCG	06-45	FFMIA non-compliance – ALMIS posting logic	B	N		
USCG	06-46	FPD system controls	I			
USCG	06-47	Legal liability reporting	G			
USCG	06-48	Recording budget authority	D, I			
USCG	06-49	Payroll and payroll accrual	G			
USCG	06-50	Unfunded leave	G			
USCG	06-51	Facts and Figures Quick report	B			
USCG	06-52	On-top adjustments	B			
USCG	06-53	Intra-governmental transactions	J			
USCG	06-54	FFMIA non-compliance – CAS chart of accounts	B	N		
USCG	06-55	PP&E additions & deletions	E			
USCG	06-56	FFMIA non-compliance – NESSS posting logic	B	N		
USCG	06-57	PP&E existence	E			
USCG	06-58	FFMIA non-compliance – general ledger analytics	B	N		
USCG	06-59	Deepwater obligations	I			
USCG	06-60	Federal Managers Financial Integrity Act		M		
USCG	06-61	Year-end pipeline adjustment	I			
USCG	06-62	UDO validation results	I			
USCG	06-63	FFMIA non-compliance: CAS posting logic	B	N		

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			PAR		FMC	
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USCG	06-64	PP&E useful lives	E			
USCG	06-65	PP&E improvements - buildings & structures	E			
USCG	06-66	FY06 PP&E summary	E			
USCG	06-67	Financial management and oversight	A			
USCG	06-68	FBwT reconciliation	D			
USCG	06-69	GAO disclosure checklist	B			
USCG	06-70	Financial reporting process	B			
USSS	06-01	Seized counterfeit currency inventory			42	06-01
USSS	06-02	Seized counterfeit currency reporting			42	06-02

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Bureau	NFR No.	Description	Disposition	
			Closed	Repeat (06 NFR No.)
CONS	05-01	Policies and procedures		CONS 06-01 (partial)
CONS	05-02	June financial statement review		CONS 06-05
CONS	05-03	TIER analytics		CONS 06-19
CONS	05-04	Government Performance and Results Act		CONS 06-10 (partial)
CONS	05-05	Audit requirements		CONS 06-07
CONS	05-06	Monitoring of laws and regulations		CONS 06-29
CONS	05-07	Legal letter	X	
CONS	05-08	OMB Circular A-50		CONS 06-25
CONS	05-09	Statement of net cost		CONS 06-02
CONS	05-10	Financial Accountability Act – CFO	X	
CONS	05-11	Restatements		CONS 06-08
CONS	05-12	Top-side adjustments		CONS 06-24
CONS	05-13	Improper Payment Act compliance		CONS 06-27
CONS	05-14	Legal letter documentation		CONS 06-21
CONS	05-15	Debt Collection Improvement Act		CONS 06-20
CONS	05-16	Working Capital Fund property capitalization		MGT 06-05
CONS	05-17	Federal Law Enforcement Training Center leases		FLETC 06-07
CONS	05-18	Controls over the intra-governmental and intra-DHS eliminations process		CONS 06-23 (partial)
CBP	05-01	Automated Commercial System (ACS) deficiencies over account receivables and CBP's ability to effectively monitor collection actions		CBP 06-05
CBP	05-02	Verification of CPL and certification of payments		CBP 06-01
CBP	05-03	Detection of excessive drawback claims		CBP 06-02
CBP	05-04	Insufficient retention period for documents that support drawback claims		CBP 06-03
CBP	05-05	Review of prior related drawback claims		CBP 06-11
CBP	05-06	ACS selectivity for underlying consumption entries		CBP 06-16
CBP	05-07	ACS deficiency over the accumulation of claims against a drawback bond		CBP 06-04
CBP	05-08	Various drawback findings		CBP 06-09
CBP	05-09	Drawback record keeping deficiency		CBP 06-08
CBP	05-10	Unable to obtain UCE's for drawback		CBP 06-12
CBP	05-11	In-bond process deficiencies		CBP 06-20
CBP	05-12	Customs bonded warehouses foreign trade zone process deficiencies		CBP 06-22
CBP	05-13	Weakness in the Compliance Measurement Program		CBP 06-23
CBP	05-14	Insufficient evaluation criteria for account managers		CBP 06-17
CBP	05-15	Various entry findings		CBP 06-18
CBP	05-16	Compliance with FFMIA		CBP 06-06



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Bureau	NFR No.	Description	Disposition	
			Closed	Repeat (06 NFR No.)
CBP	05-17	Entry bond sufficiency	X	
CBP	05-18	Environmental liabilities		CBP 06-25
CBP	05-19	Compliance with Federal Managers' Financial Integrity Act	X	
EPR (FEMA)	05-01	Region IX financial management of grants	X	
EPR	05-02	Region V financial management of grants	X	
EPR	05-03	Number not used	Not applicable	
EPR	05-04	Lack of segregation of duties related to preparation and approval of journal vouchers		FEMA 06-01
EPR	05-05	Number not used	Not applicable	
EPR	05-06	Delay in clearing items from the suspense account		FEMA 06-06
EPR	05-07	Number not used	Not applicable	
EPR	05-08	Number not used	Not applicable	
EPR	05-09	Capitalization Criteria in NEMIS was not updated	X	
EPR	05-10	Timeliness in reconciling FMS 6653 differences	X	
EPR	05-11	Temporary adjustments of fund balance with Treasury reconciliation differences		FEMA 06-31
EPR	05-12	Monitoring of audit findings with accordance with A-133 and A-50		FEMA 06-14
EPR	05-13	Improvements needed in the TIER validation process	X	
EPR	05-14	Statement of Net Cost allocation methodology		FEMA 06-05
EPR	05-15	Improving flood insurance process related to accelerated financial reporting deadlines		FEMA 06-28 (partial)
EPR	05-16	FMFIA Section 2 non-compliance		FEMA 06-19
EPR	05-17	FMFIA Section 4 non-compliance		FEMA 06-21
EPR	05-18	Recording of accruals related to fire grants		FEMA 06-25
EPR	05-19	Recording costs for software in development		FEMA 06-12
EPR	05-20	Recognition of National Flood Insurance Program (NFIP) flood claim obligations		FEMA 06-17
EPR	05-21	Personal property acquired under mission assignments	X	
EPR	05-22	Review for property, plant, and equipment acquired at fiscal year-end		FEMA 06-22
EPR	05-23	Availability of supporting documentation for financial transactions	X	
EPR	05-24	Timely recording of manufactured housing property in LIMS.		FEMA 06-23
BTS (USV)	05-01	Controls over internal use software and software-in-development need improvement		USV-06-04
BTS	05-02	Number not used	Not applicable	
BTS	05-03	Obligations are not being keyed into FFMS in a timely manner	X	
CIS	05-01	Obligations and modifications thereto are not reviewed to ensure accuracy of data entry in FFMS	X	

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			Closed	Repeat (06 NFR No.)
CIS	05-02	See Information Technology Management Letter	X	
CIS	05-03	See Information Technology Management Letter	X	
CIS	05-04	See Information Technology Management Letter		CIS IT-06-04
CIS	05-05	See Information Technology Management Letter	X	
CIS	05-06	See Information Technology Management Letter	X	
CIS	05-07	CLAIMS 3 and 4 are not being updated in a timely manner upon adjudication		CIS 06-06
CIS	05-08	Lack of QA procedures related to missing application files		CIS 06-02
CIS	05-09	Incorrect fee amounts used in RNACS queries.		CIS 06-07
CIS	05-10	Applications not subject to quality assurance procedures		CIS 06-10
CIS	05-11	Fee receipts are not being deposited in a timely manner per Treasury guidance		CIS 06-03
CIS	05-12	Accumulated leave balances reported by the NFC do not agree with the leave balances in STAR	X	
CIS	05-13	Documentation to support procurement transactions were not readily available	X	
CIS	05-14	Obligations related to border patrol activities are in USCIS General Ledger	X	
CIS	05-15	Obligations are not being keyed in FFMS in a timely manner		CIS 06-09
CIS	05-16	Number not used	Not applicable	
CIS	05-17	Approval of obligation documents by contracting officer and budget prior to obligating within FFMS needs improvement	X	
CIS	05-18	Actuarial FECA liability for USCIS appears to be misstated	X	
CIS	05-19	Improper use of project codes	X	
CIS	05-20	Authorized obligation amounts are not being recorded in their entirety	X	
IAIP (PRE)	05-01	Number not used	Not applicable	
IAIP	05-02	Obligations are not being keyed into FFMS in a timely manner.		PRE 06-01
ICE	05-01	Lack of FPS obligations recorded in FFMS		ICE 06-11 (partial)
ICE	05-02	Inability to pay invoices due to lack of obligations recorded in FFMS	X	
ICE	05-03	Inadequate review of "free form" general journal entries	X	
ICE	05-04	Untimely clearing of suspense account transactions	X	
ICE	05-05	Untimely clearing of non-22 disbursements made by legacy agencies on behalf of IAIP and S&T	X	
ICE	05-06	Improper classification of purchases that would require a receiving ticket		ICE 06-01
ICE	05-07	See Information Technology Management Letter	X	
ICE	05-08	Approval if invoices needs improvement for payables made related to ICE and BTS	X	
ICE	05-09	Incomplete reconciliation procedures of the open document file	X	
ICE	05-10	Documentation to support T&A and leave data was not provided	X	

**Department of Homeland Security**  
*Status of Prior Year NFR's*  
 September 30, 2006

Bureau	NFR No.	Description	Disposition	
			Closed	Repeat (06 NFR No.)
ICE	05-11	Untimely clearing of reconciling items from the Backlog List by the agency locations	X	
ICE	05-12	Verification and validation (V&V) procedures were not performed over undelivered order balances during FY 2005	X	
ICE	05-13	Development of shared services agreements	X	
ICE	05-14	Policies and procedures governing financial accounting and reporting operations for DHS components needs to be implemented by ICE OFM	X	
ICE	05-15	The process for posting Non-224 transactions in FFMS needs improvements	X	
ICE	05-16	Lack of completeness in recording and maintaining fixed assets	X	
ICE	05-17	Presence of abnormal balances and analytic differences		ICE 06-14
ICE	05-18	Payroll interface errors and reclassifications for ICE, USCIS, and the component units.		ICE 06-13
ICE	05-19	ICE OFM has not met the submission deadlines set forth within the FY 2005 PAR guidance issued by the DHS Office of the Chief Financial Officer	X	
ICE	05-20	Reconciliation of the FMS-6652 is not being performed for HQ ALC	X	
ICE	05-21	Controls over the accuracy of the budgetary data in the general ledger is not current to ensure that the SF-132 is correct with FMS	X	
ICE	05-22	Number not used	Not applicable	
ICE	05-23	Untimely disbursement of payments to vendors		ICE 06-07
ICE	05-24	Number not used	Not applicable	
ICE	05-25	Approval of obligating documents by contracting officer prior to obligating within FFMS needs improvement.		ICE 06-06
ICE	05-26	Obligations related to Border Patrol activities are recorded within ICE's general ledger.	X	
ICE	05-27	Improper posting of reconciling differences from the FMS 6652 to the suspense account	X	
ICE	05-28	Possible violations of the Anti-deficiency Act	X	
ICE	05-29	Number not used	Not applicable	
ICE	05-30	Financial management and oversight at Immigration and Customs Enforcement	X	
ICE	05-31	Non-compliance with DHS guidance on reconciling and reporting DHS governmental transactions	X	
ICE	05-32	Number not used	Not applicable	
ICE	05-33	Reconciliation of the FMS-6652, Statement of Differences, is not being performed for the Headquarters' agency location code	X	
ICE	05-34	Inefficient use of resources from manual preparation SF-224 from general ledger data	X	
ICE	05-35	Suspense subsidiary ledger is not reconciled to the general ledger	X	
ICE	05-36	Insufficient supporting documentation to determine whether annual training was provided to all senior executive service (SES) employees	X	
ICE	05-37	Reconciliation items identified by the reconciliation of the FMS 6652 Statement of Differences are not being cleared by the Dallas Finance Center timely manner	X	
ICE	05-38	Cash adjustments made to adjust fund balance with Treasury	X	

**Department of Homeland Security**  
*Status of Prior Year NFR's*  
 September 30, 2006

Bureau	NFR No.	Description	Disposition	
			Closed	Repeat (06 NFR No.)
		balance in general ledger to the treasury balance do not equal differences identified on cash reconciliations		
ICE	05-39	Improper transfer of account balances over \$50 million between budget clearing accounts	X	
ICE	05-40	Consolidated cash reconciliations are not performed in a timely manner	X	
ICE	05-41	Lack of segregation of duties within FFMS for processing management level reclassification transactions	X	
ICE	05-42	Accumulated leave balances reported by NFC do not agree with the leave balances recorded in STAR		ICE 06-10
ICE	05-43	Actuarial FECA liability for ICE appears to be misstated	X	
ICE	05-44	Inability to complete audit procedures related to Thrift Savings Plan (TSP) compliance due to lack of supporting documentation	X	
ICE	05-45	Reconciliations should be performed on a monthly basis between all procurement systems and the automated general ledger (FFMS)		ICE 06-09 (partial)
ICE	05-46	FFMS does not adequately support certain obligation information	X	
ICE	05-47	Obligations are not being recorded into FFMS in a timely manner		ICE 06-09 (partial)
ICE	05-48	Authorized obligations amounts are not being recorded in its entirety	X	
ICE	05-49	Number not used	Not applicable	
ICE	05-50	Transition issues related to FPS		ICE 06-11 (partial)
ICE	05-51	Lack of additional procedures to support the receipt of goods and services and/or payment and/or collection was posted against the appropriate obligation for intra-government (IPAC) transactions		ICE 06-08
ICE	05-52	Documentation to support procurement transactions was not readily available.		ICE 06-04
ICE	05-53	Improper testing of subsequent disbursements	X	
ICE	05-54	Number not used	Not applicable	
ICE	05-55	Lack of sufficient process and procedures related to FMFIA reporting	X	
MGT	05-01	Documentation to support procurement transactions were not readily available		MGT 06-02
MGT	05-02	Number not used	Not applicable	
MGT	05-03	Obligations are not being keyed into FFMS in a timely manner.		MGT 06-03
S&T	05-01	Evaluation of the environmental liabilities within the Science & Technology Directorate	X	
S&T	05-02	Number not used	Not applicable	
S&T	05-03	Obligations are not being keyed into FFMS in a timely manner.		S&T 06-03
SLGCP (G&T)	05-01	Lack of an executed reimbursable agreement	X	
SLGCP	05-02	Financial monitoring of grants awarded by the Office of State and Local Government Coordination and Preparedness		G&T 06-09
SLGCP	05-03	Management should provide additional oversight and guidance for its financial reporting process	X	

**Department of Homeland Security**  
*Status of Prior Year NFR's*  
 September 30, 2006

Bureau	NFR No.	Description	Disposition	
			Closed	Repeat (06 NFR No.)
SLGCP	05-04	Lack of segregation of duties in the preparation and approval of journal vouchers		G&T 06-12
SLGCP	05-05	Grants monitoring and File maintenance	X	
SLGCP	05-06	See Information Technology Management Letter		G&T 06-06
SLGCP	05-07	Improvement needed over the review of grant accrual calculation		G&T 06-13
SLGCP	05-08	Monitoring of findings in accordance with Office of Management and Budget Circular No. A-133 (OMB A-133) "Audits of States, Local Governments, and Non-Profit Organizations"	X	
SLGCP	05-09	Statement of net cost allocation methodology	X	
SLGCP	05-10	Improvements needed in the TIER validation process	X	
SLGCP	05-11	Improvement needed over journal voucher review procedures	X	
SLGCP	05-12	See Information Technology Management Letter	X	
SLGCP	05-13	See Information Technology Management Letter		G&T 06-07
SLGCP	05-14	Timeliness of grant closeouts		G&T 06-08
SLGCP	05-15	Improvements needed over the grants payable estimation process		G&T 06-13 (partial)
TSA	05-01	General accounts payable	X	
TSA	05-02	Issues identified in the June 30th TIER file and financial statements		TSA 06-05
TSA	05-03	Grant monitoring and compliance with OMB Circular No. A-133		TSA 06-10
TSA	05-04	Grant accrual validation		TSA 06-02
TSA	05-05	Human resources document retention		TSA 06-04
TSA	05-06	Recoveries of prior year obligation		TSA 06-07
TSA	05-07	Revenue and accounts receivable as of 6/30/05	X	
TSA	05-08	Implementation of SSFAS No. 4, Interpretation No. 6		TSA 06-09
TSA	05-09	Statement of Net Cost methodology	X	
TSA	05-10	September 30 TIER files and financial statements		TSA 06-16
USCG	05-01	Coast Guard - operating materials & supplies		USCG 06-04
USCG	05-02	PP& E repairables		USCG 06-02
USCG	05-03	Pay changes laws and regulations		USCG 06-20
USCG	05-04	Environmental remediation - lighthouse/light station & small arms firing range		USCG 06-18, 06-27, 06-39
USCG	05-05	Confidential financial disclosure reports	X	
USCG	05-06	Controls over post employment travel liability underlying data		USCG 06-01
USCG	05-07	Review of payroll data	X	
USCG	05-08	Payroll data system internal controls	X (partial)	USCG 06-32 (partial)
USCG	05-09	Department of Defense medical invoices		USCG 06-30
USCG	05-10	Environmental liabilities - vessel Review		USCG 06-08, 06-39
USCG	05-11	Environmental liabilities - shore facilities		USCG 06-15, 06-39
USCG	05-12	Obligations for permanent changes of station travel orders		USCG 06-01

**Department of Homeland Security**  
*Status of Prior Year NFR's*  
 September 30, 2006

Bureau	NFR No.	Description	Disposition	
			Closed	Repeat (06 NFR No.)
USCG	05-13	Disbursements population		USCG 06-52
USCG	05-14	Adjustments to account 4902-Delivered Orders, Paid		USCG 06-52
USCG	05-15	Shore facilities environmental liability		USCG 06-15, 06-39
USCG	05-16	Statement of net cost		USCG 06-05
USCG	05-17	Purchase requisition numbers		USCG 06-44
USCG	05-18	Contracting officer warrant authority		USCG 06-09
USCG	05-19	Financial Procurement Desktop system controls		USCG 06-46
USCG	05-20	Commitments		USCG 06-38
USCG	05-21	Facts and figures		USCG 06-51
USCG	05-22	Management effective assessments	X	
USCG	05-23	Deepwater obligations		USCG 06-59
USCG	05-24	Undelivered orders		USCG 06-13
USCG	05-25	Year-end obligations		USCG 06-61
USCG	05-26	Recording budget authority		USCG 06-48
USCG	05-27	Review of prior year medical obligations/expenditures		USCG 06-14
USCG	05-28	Post-employment travel - supporting documentation		USCG 06-01
USCG	05-29	Access controls - travel claim disbursements		USCG 06-01
USCG	05-30	HU 25 improvements	X	
USCG	05-31	PP&E project management		USCG 06-24
USCG	05-32	Recording of AFC 43 funds in Oracle Projects		USCG 06-24
USCG	05-33	Personnel data records		USCG 06-41
USCG	05-34	Adjustments to general ledger account balances		USCG 06-52
USCG	05-35	Aircraft depreciation asset records		USCG 06-16
USCG	05-36	PP&E construction in progress	X	
USCG	05-37	PP&E small boats		USCG 06-06
USCG	05-38	PP&E buildings & structures		USCG 06-19
USCG	05-39	Legal liability reporting		USCG 06-47
USCG	05-40	Topside adjustments to CG TIER account balances		USCG 06-52
USCG	05-41	Coast Guard Yard assets		USCG 06-42
USCG	05-42	PP&E improvements - buildings & structures		USCG 06-65
USCG	05-43	UDO validation process		USCG 06-13
USCG	05-44	Oil Spill Liability Trust Fund (OSLTF)	X	USCG 06-03 <sup>1</sup>
USCG	05-45	PP&E additions and deletions		USCG 06-55
USCG	05-46	Support for financial statements balances		USCG 06-26
USCG	05-47	Cumulative Results of Operations analysis		USCG 06-10
USCG	05-48	Impairment of assets		USCG 06-57
USCG	05-49	Useful lives of small boats		USCG 06-64
USCG	05-50	Useful lives of vessels		USCG 06-64
USCG	05-51	Assets identification		USCG 06-36

**Department of Homeland Security**  
*Status of Prior Year NFR's*  
 September 30, 2006

Bureau	NFR No.	Description	Disposition	
			Closed	Repeat (06 NFR No.)
USCG	05-52	PP&E existence		USCG 06-57
USCG	05-53	UDO validation results analysis		USCG 06-62
USCG	05-54	Existence testing		USCG 06-57
USCG	05-55	FY05 PP&E summary		USCG 06-66
USCG	05-56	Abnormal general ledger account balances		USCG 06-37
USCG	05-57	Post payment review of travel claims		USCG 06-01
USCG	05-58	Federal Financial Management Improvement Act (FFMIA)		USCG 06-11, 06-28, 06-43, 06-45, 06-54, 06-56, 06-58, 06-63
USCG	05-59	Federal Managers' Financial Integrity Act		USCG 06-60
USCG	05-60	Completeness/accuracy of suspense clearing transactions population		USCG 06-40
USCG	05-61	Financial management and oversight		USCG 06-67
USCG	05-62	Accurate clearing of suspense balances		USCG 06-40
USCG	05-63	Suspense clearing of transaction support		USCG 06-40
USCG	05-64	Oracle fixed asset records		USCG 06-29
USCG	05-65	Advances to Others		USCG 06-63
USCG	05-66	Year-end pipeline adjustment		USCG 06-61
USCG	05-67	Estimation of Accounts Payable accrual		USCG 06-12
USCG	05-68	Intra-governmental transactions		USCG 06-53
USCG	05-69	Aging of open suspense items		USCG 06-40
USCG	05-70	Financial reporting process		USCG 06-70
USCG	05-71	GAO disclosure checklist		USCG 06-69
USSS	05-01	Seized counterfeit currency inventory		USSS 06-01
USSS	05-02	Fund balance with Treasury	X	
USSS	05-03	Seized property process		USSS 06-02

<sup>1</sup> KPMG was engaged to perform an audit over the FY 2006 Department of Homeland Security consolidated balance sheet and statement of custodial activity, and was not engaged to perform an audit over the consolidated statement of net cost, consolidated statement of changes in net position, and the combined statement of budgetary resources for the year ended September 30, 2006. In addition, we were engaged to perform follow-up on the status of all active Notice of Findings and Recommendations (NFRs) that supported reportable conditions reported in KPMG's Independent Auditors' Report dated November 14, 2005 and which were not closed during FY2006. All other NFRs issued in previous years, which do not relate to the consolidated balance sheet, statement of custodial activity, or were not reported in the November 14, 2005 Independent Auditors' Report are considered out-of-scope and no further procedures were performed.

<sup>1</sup> KPMG re-issued NFR USCG 05-44 as 06-03 in June 2006; however, USCG management successfully demonstrated that corrective action had been implemented and thus all conditions eliminated as of September 30, 2006. The NFR was subsequently closed.

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

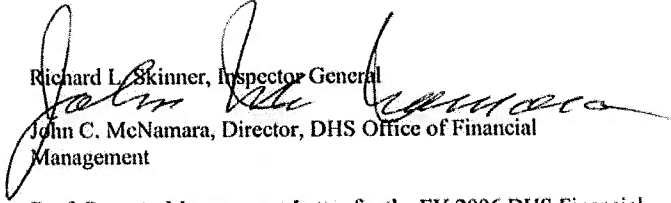
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U.S. Department of Homeland  
Security  
Washington, DC 20528



**Homeland  
Security**

**February 22, 2007**

**MEMORANDUM FOR:** Richard L. Skinner, Inspector General  
**FROM:**  John C. McNamara, Director, DHS Office of Financial  
Management  
**SUBJECT:** Draft Report: Management Letter for the FY 2006 DHS Financial  
Statement Audit

Thank you for the opportunity to comment upon the Draft Report: Management Letter for the FY 2006 DHS Financial Statement Audit. We concur with the report's recommendations and are currently incorporating the audit results into our corrective action plans. We appreciate your office's contributions and insights into our challenges and we look forward to continue our efforts to implement corrective actions and most importantly the *DHS Financial Accountability Act*.



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