

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

Management Letter for the FY 2012 DHS
Financial Statements and Internal Control
over Financial Reporting Audit






OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

FEB 14 2013

MEMORANDUM FOR: Larry Bedker
Director
Office of Financial Management

FROM: Anne L. Richards 
Assistant Inspector General for Audits

SUBJECT: *Management Letter for the FY 2012 DHS Financial Statements and Internal Control over Financial Reporting Audit*

Attached for your information is our final report, *Management Letter for the FY 2012 DHS Financial Statements and Internal Control over Financial Reporting Audit*. This report contains observations and recommendations related to internal control deficiencies that were not required to be reported in the *Independent Auditors' Report* over the FY 2012 DHS financial statements and internal control over financial reporting. Internal control deficiencies, which are considered significant deficiencies were reported, as required, in the *Independent Auditors' Report*, dated November 14, 2012, which was included in the *FY 2012 DHS Annual Financial Report*. We do not require management's response to the recommendations.

The independent public accounting firm KPMG LLP conducted the audit of DHS' FY 2012 financial statements and is responsible for the attached management letter dated January 30, 2013, and conclusions expressed in it. We do not express opinions on DHS' financial statements or internal control, nor do we provide conclusions on compliance with laws and regulations.

Please call me with any questions, or your staff may contact, Mark Bell, Deputy Assistant Inspector General for Audits, at (202)254-4100.

Attachment



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

January 30, 2013

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

Ladies and Gentlemen:

We have audited the balance sheet of the U.S. Department of Homeland Security (DHS or Department) as of September 30, 2012 and the related statements of net cost, changes in net position and custodial activity, and combined statement of budgetary resources for the year then ended (referred to herein as the “fiscal year (FY) 2012 financial statements”). The objective of our audit was to express an opinion on the fair presentation of these financial statements. We were also engaged to examine the Department’s internal control over financial reporting of the FY 2012 financial statements, based on the criteria established in Office of Management and Budget, Circular No. A-123, *Management’s Responsibility for Internal Control*, Appendix A.

Our *Independent Auditors’ Report* issued on November 14, 2012, describes a limitation on the scope of our audit that prevented us from performing all procedures necessary to express an unqualified opinion on the DHS’ FY 2012 financial statements and internal control over financial reporting. In addition, the FY 2012 DHS *Secretary’s Assurance Statement* states that the Department was able to provide qualified assurance that internal control over financial reporting was operating effectively at September 30, 2012.

In accordance with *Government Auditing Standards*, our *Independent Auditors’ Report*, referred to in the paragraph above, included internal control deficiencies identified during our audit, that individually, or in aggregate, represented a material weakness or a significant deficiency.

We also noted certain matters involving internal control and other operational matters that are less severe than a material weakness or a significant deficiency, and consequently are reported separately to the Office of Inspector General (OIG) and DHS management in this letter. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. Sections I through XV of this letter provide our observations for your consideration, and have been indexed in the table of Financial Management Comments beginning on the following page. The disposition of each internal control deficiency identified during our FY 2012 audit – as either reported in our *Independent Auditors’ Report*, or herein – is presented in Appendix A. The status of internal control deficiencies identified during our FY 2011 audit is presented in Appendix B. Our findings related to information technology systems security have been presented in a separate letter to the OIG and the DHS Chief Information Officer.

DHS’ written response to our comments and recommendations is presented in Appendix C.



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

Very truly yours,

KPMG LLP

Department of Homeland Security
Table of Financial Management Comments
September 30, 2012

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

Section/Component	Comment Reference	Subject	Page
I	CUSTOMS AND BORDER PROTECTION (CBP)		6
	FMC 12-01	Lack of Implementation of Controls over Determining Classification of Leases	
	FMC 12-02	Automated Commercial System (ACS) Deficiency over the Accumulation of Accelerated Payments Against a Drawback Bond	
	FMC 12-03	Insufficient Retention Period for Documents that Support Drawback Claims	
	FMC 12-04	Weaknesses in Controls over Timely Processing of Goods and Services Received	
	FMC 12-05	Insufficient Review of ACS and User Fee Database Reconciliation	
	FMC 12-06	Deficiencies in the Public and Confidential Financial Disclosure Reporting Process	
	FMC 12-07	Deficiencies in the Performance Management Program	
	FMC 12-08	Insufficient Review of the Consolidated Omnibus Budget Reconciliation Act User Fees and Immigration User Fees Accounts Receivable Estimate	
	FMC 12-09	Lack of Segregation of Duties over Collections and Deposits	
	FMC 12-10	Weaknesses in the Trade Compliance Measurement Program	
	FMC 12-11	Weaknesses in the Review of the Weekly Entry Edit/Exception Reports	
	FMC 12-12	Deficiencies over Monitoring of Ethics Requirements	
	FMC 12-13	Untimely Undelivered Orders (UDOs) Quarterly Review	
	FMC 12-14	Weaknesses in Controls over Customs-Trade Partnership Against Terrorism Benefits	
	FMC 12-15	Lack of Verification of Refunds	
	FMC 12-16	Weaknesses in Controls over the Bond Sufficiency Review Process	
	FMC 12-17	Deficiencies in the Seized Inventory Process	
	FMC 12-18	Deficiencies in the Review of the Department of Labor (DOL) Chargeback Report	
	FMC 12-19	Weaknesses in CBP's Process Related to Recording Construction Percentage of Completion Amounts	
	FMC 12-20	Untimely De-obligation of UDOs and Weaknesses in Related Controls	
	FMC 12-21	Deficiencies in the Review of Standard Form (SF)-52 Personnel Action Request Tracking System Actions	
	FMC 12-22	Deficiencies in the Review of Adjusting Journal Entries (JEs)	
	FMC 12-23	Deficiencies in the Inventory and Related Property Process	
	FMC 12-24	Deficiencies in Tracking CBP Leases	
II	DOMESTIC NUCLEAR DETECTION OFFICE (DNDO)		19
	FMC 12-01	Deficiencies in the Operating Expense Process	
	FMC 12-02	Deficiencies Related to Monitoring UDOs	
III	FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)		21
	FMC 12-01	Inability to Link Systems to Significant Grant Programs	
	FMC 12-02	Ineffective Design of Controls Related to Grant Activities	
	FMC 12-03	Ineffective Design of Controls Related to Intragovernmental Activities	
	FMC 12-04	Internal Control Deficiencies Identified over Claims Paid at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program (NFIP)	
	FMC 12-05	Deficiencies Identified over Premiums Written by FEMA's NFIP	
	FMC 12-06	Ineffective Controls over Procurement Payments and Monitoring Efforts	

Department of Homeland Security
Table of Financial Management Comments
 September 30, 2012

FMC 12-07	Ineffective Controls over Procurement and Non-Compliance with Federal Acquisition Regulation	
FMC 12-08	Deficiencies in the Monthly Budget Execution Reviews	
FMC 12-09	Deficiencies Identified in the Integrated Financial Management Information System Chart of Accounts and Transaction Codes	
FMC 12-10	Deficiencies in the Preparation and Review of the Government Accountability Office (GAO) Financial Audit Manual 2010 – Checklist for Federal Accounting	
FMC 12-11	Deficiencies in the Development of Mission Assignment Policies and Procedures	
FMC 12-12	Inadequate Documentation Related to Payroll Processing and Lack of Formal Policies and Procedures	
FMC 12-13	Ineffective Monitoring of Internal Controls via the Internal Control Board	
FMC 12-14	Lack of Documentation Related to the Contingent Legal Liabilities Review	
FMC 12-15	Deficiencies Identified over Claims’ Loss Reserves at Selected Insurance Companies that Participate in FEMA’s NFIP	
FMC 12-16	Issues Identified in Journal Voucher Testwork	
FMC 12-17	Non-Compliance with the Prompt Payment Act	
FMC 12-18	Lack of Communication to Employees Regarding the Department of Homeland Security Office of Inspector General Hotline and the Code of Conduct	
FMC 12-19	General Office of Chief Procurement Officer Lack of Responsiveness and Process Knowledge	
FMC 12-20	Inability to Closeout Assistance to Firefighter Grants	
FMC 12-21	Deficiencies in the Monitoring of Staffing Requirements	
FMC 12-22	Improvements Needed in Management’s Review of the Legacy Preparedness Accrual Model	
FMC 12-23	Untimely Reduction of Invalid Unfilled Customer Orders (UCOs)	
FMC 12-24	Improvements Needed in Management’s Review of the Acceptable Variance Range for the SmartLink Accrual Model	
FMC 12-25	Deficiencies in the Methodology and Controls Related to the Non-Grant, Non-Intragovernmental Accounts Payable Accrual	
FMC 12-26	Deficiency Identified Related to the Preparation and Review of the Retrospective Review Analysis	
FMC 12-27	Deficiencies in the Verification and Collection of Required Supplementary Stewardship Information and Performance Measurement Data for the Annual Financial Report’s Management’s Discussion and Analysis	
IV	FEDERAL LAW ENFORCEMENT TRAINING CENTER (FLETC)	37
	FMC 12-01 Deficiencies in the Financial Disclosure Reporting Process	
	FMC 12-02 Deficiencies in the Review of SF-50s	
V	UNITED STATES CITIZENSHIP AND IMMIGRATION SERVICES (USCIS)	38
	FMC 12-01 Inadequate Policies and Procedures over the Review of Personnel Actions	
	FMC 12-02 Insufficient Reconciliation between the Purchase Request Information System (PRISM) and Federal Financial Management System (FFMS)	
	FMC 12-03 Potential Non-Compliance with Office of Government Ethics (OGE) Form 450 Filing Requirements	
	FMC 12-04 USCIS Contracting Officers Disregarded DHS Invoice Approval Requirements	
	FMC 12-05 Insufficient Review of Journal Entries	
	FMC 12-06 Inaccurate Data in the Claims 3, Claims 4, and Marriage Fraud	

Department of Homeland Security
Table of Financial Management Comments
 September 30, 2012

	Amendment Systems	
	FMC 12-07 Insufficient Review of Deposit Transactions	
	FMC 12-08 Inadequate Monitoring of Fee Table Changes in Deferred Revenue Estimate Process	
	FMC 12-09 Deficiencies in the Recording of Internal Use Software	
	FMC 12-10 Deficiencies in the Timely Recording of Capital Equipment	
VI	IMMIGRATION AND CUSTOMS ENFORCEMENT (ICE)	43
	FMC 12-01 Inadequate Controls over New Hire Ethics Briefings	
	FMC 12-02 Student and Exchange Visitor Information System Data not Reconciled to FFMS Data	
	FMC 12-03 GAO Checklist Review	
	FMC 12-04 Untimely Review of OGE Form 450s	
	FMC 12-05 Ineffective Internal Controls over Leave Audit Process	
	FMC 12-06 FFMS to PRISM Reconciliation	
	FMC 12-07 Subject to Availability of Funding Agreements not Obligated in FFMS at Outset of Agreement	
	FMC 12-08 Accounts Payable Estimation Methodology does not Contain Procedures for Considering Improvements to the Methodology	
	FMC 12-09 Inadequate Policies and Procedures for Property, Plant and Equipment (PP&E) Accruals	
VII	INTELLIGENCE & ANALYSIS (I&A) and OPERATIONS (OPS) (MGA)	47
	FMC 12-01 UDO Validity	
	FMC 12-02 Deficiencies in the Payroll Process	
VIII	MANAGEMENT DIRECTORATE (MGT)	49
	FMC 12-01 Inadequate Internal Controls over PP&E	
IX	NATIONAL PROTECTION AND PROGRAMS DIRECTORATE (NPPD)	50
	FMC 12-01 Inadequate PRISM to FFMS Reconciliation	
	FMC 12-02 Federal Protective Services (FPS) Accounts Receivable Allowance	
	FMC 12-03 UCOs Not Recorded for Recurring Security Agreements	
	FMC 12-04 FPS Headquarters Security Billing Review	
	FMC 12-05 Untimely De-obligation of UDO Balances	
	FMC 12-06 Accounts Payable Estimate Methodology	
X	OFFICE OF HEALTH AFFAIRS (OHA)	53
	FMC 12-01 Bioshield Accounts Payable Accrual	
	FMC 12-02 Contract Management	
XI	SCIENCE & TECHNOLOGY DIRECTORATE (S&T)	54
	FMC 12-01 FFMS to PRISM Reconciliation	
	FMC 12-02 Inadequate Controls and Procedures over Recording and Reporting Personal Property	
	FMC 12-03 Inadequate Internal Controls over Reporting of Construction In Progress (CIP) and Buildings	
	FMC 12-04 Inadequate Documentation of Inventory Procedures	
	FMC 12-05 Inadequate UCO Review	
	FMC 12-06 Inadequate Policies and Procedures for Identifying Heritage Assets	
XII	TRANSPORTATION SECURITY ADMINISTRATION (TSA)	57
	FMC 12-01 Asset Exchanges	
	FMC 12-02 Noncompliance with Debt Collection Improvement Act (DCIA) of 1996	

Department of Homeland Security
Table of Financial Management Comments
September 30, 2012

FMC 12-03	Revenue Fee Classification	
FMC 12-04	Review of Journal Vouchers	
FMC 12-05	Employee Record Management and Compliance with Human Resources Related Laws	
FMC 12-06	Ineffective Controls over the Time and Attendance Process	
FMC 12-07	PP&E Site Visits	
FMC 12-08	PP&E Controls	
FMC 12-09	Completeness of Heritage Assets	
FMC 12-10	Undelivered Orders Controls – Validation and Verification	
FMC 12-11	Travel Authorization Approval	
FMC 12-12	Intragovernmental Payment And Collection Review Controls and Suspense Clearing	
XIII	UNITED STATES COAST GUARD (USCG OR Coast Guard)	65
FMC 12-01	Fund Balance with Treasury (FBwT) Reconciliations	
FMC 12-02	Expense Process	
FMC 12-03	Accounts Receivable and DCIA Compliance	
FMC 12-04	Operating Materials and Supplies	
FMC 12-05	Financial Disclosure Reports	
XIV	UNITED STATES SECRET SERVICE (USSS)	69
FMC 12-01	JE Controls	
FMC 12-02	Funds Management Controls and Supporting Documentation	
FMC 12-03	Deficiencies in USSS’s Seized Property Inventory Process	
FMC 12-04	Human Resource Compliance and Controls	
XV	CONSOLIDATED (CONS)	72
FMC 12-01	Interim Contingent Legal Liabilities Review	
FMC 12-02	Preparation and Review of the Special-Purpose Financial Statements and Notes	

Department of Homeland Security
Table of Financial Management Comments
September 30, 2012

APPENDIX

Appendix	Subject	Page
A	Crosswalk – Financial Management Comments to Active Notices of Finding and Recommendation (NFRs)	74
B	Status of Prior Year NFRs	82
C	Management Response to the Management Letter	88

I. CUSTOMS AND BORDER PROTECTION (CBP)

CBP – Financial Management Comment (FMC) 12-01 – Lack of Implementation of Controls over Determining Classification of Leases (*Notice of Finding and Recommendation (NFR) No. CBP 12-02*)

CBP does not have a formal requirement to retain documentation for personal property or Office of Information Technology (OIT) property to support the evaluation of all leases as operating or capital. Therefore, there is no clear, auditable documentation evidencing how CBP determines if personal property or an OIT lease should be classified as capital or operating.

Recommendations:

We recommend that CBP:

- Prepare a personal property and OIT lease evaluation tool in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 6 and Office of Management and Budget (OMB) Circular No. A-11.
- Update CBP's lease directive to require the completion and retention of the personal property and OIT lease evaluation tool and establish related responsibilities.

CBP – FMC 12-02 – Automated Commercial System (ACS) Deficiency over the Accumulation of Accelerated Payments Against a Drawback Bond (*NFR No. CBP 12-03*)

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

ACS remains the system of record for drawback claims and bonds. In fiscal year (FY) 2012, CBP began developing a script within ACS, known as "ACP," that will indicate the bond number, claimants listed on the bond, anniversary date of the bond, bond value, and a list of all drawback accelerated payments applied against the bond. However, the script has not been fully and effectively implemented within ACS.

Recommendation:

We recommend that CBP release the revised script, ACP, described above, into production, after proper testing, and issue an updated memo to the drawback centers announcing the reinstatement of the ACP script, with instructions on how to use the script.

CBP – FMC 12-03 – Insufficient Retention Period for Documents that Support Drawback Claims (*NFR No. CBP 12-04*)

The length for document retention related to a drawback claim, per the Code of Federal Regulations (CFR), is three years from the date of payment. However, there are several situations that could extend the life of the drawback claim beyond three years. For example, a protest on the underlying consumption entries that are associated with a drawback claim may require an extension, thus the claimant may not be retaining supporting documentation for the extended amount of time. Also, the language of the CFR is ambiguous, "...3 years after payment of such

Department of Homeland Security
Financial Management Comments
September 30, 2012

claims...” leaves open to interpretation whether the three years begins on the date of the accelerated payment (if any), or the payment at final liquidation (if any). Based on review of CBP’s mission action plan, CBP is currently in process of tracking the status of the Drawback Simplification legislation which, if passed, will better allow CBP to analyze export documentation and assess the validity and accuracy of drawback claims. Although CBP is continuing to make progress on correcting this condition, remediation was not completed during FY 2012.

Recommendation:

As the document retention period is a statutory requirement set by Congress, CBP does not have a specific recommendation.

CBP – FMC 12-04 – Weaknesses in Controls over Timely Processing of Goods and Services Received (NFR Nos. CBP 12-07 and 12-07b)

During testwork as of March 31, 2012, we reviewed a statistical sample of 55 operating expense type transactions. In three transactions, the receipt of goods or services was not recorded in the proper period.

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

In order to capture goods receipt/service entries not entered timely, CBP uses both workflow messages and an on-demand SAP “parked invoice” report available to all receiving officials. A workflow message is sent to the goods receiver when an invoice is input into SAP without a corresponding goods receipt. In addition, if this message is not addressed within five days, a subsequent message is sent to a budget official. CBP’s Commercial Accounts Section works the “parked invoice” report weekly and communicates with program offices to resolve open items. In addition, CBP headquarters program level officers are provided the “parked invoice” report monthly that allows them to monitor the items outstanding for their program office. These officials are responsible for distributing the report to their subordinate offices for action and implementing varying levels of review procedures to ensure items are resolved. Beginning January 2012, SAP was enhanced to issue email messages to Contracting Officers when an invoice remained parked for 8 days and another email message is issued when the invoice is still parked at 15 days. In addition, CBP Directive 5220-040, Contract Invoice Processing and Payment Procedures, was issued January 26, 2012, to establish controls, guidance, and procedures for timely processing of contractors’ invoices and interim vouchers, to prevent interest penalties for late payments. However, these procedures are not performed until after the receipt of an invoice, which is typically after the receipt of goods or services.

During testwork as of July 31, 2012, we reviewed a statistical sample of 39 operating expense type transactions and identified seven transactions where the receipt of goods or services was not recorded in the proper period.

Department of Homeland Security
Financial Management Comments
September 30, 2012

During testwork as of September 30, 2012, we reviewed a statistical sample of 27 operating expense type transactions and identified nine transactions, where the receipt of goods or services was not recorded in the proper period.

Recommendations:

We recommend that CBP:

- Continue outreach efforts that provide guidance to receiving officials through conference calls and newsletters.
- Monitor the results of the annual Self Inspection worksheets to determine additional training needs.
- Provide Webinar type training and target program offices that enter receiving information late.

CBP – FMC 12-05 – Insufficient Review of ACS and User Fee Database Reconciliation (NFR No. CBP 12-09)

Insufficient review was performed over the December 2011 ACS-User Fee Database reconciliation. For the reconciliation of one class code, the amount of collections input on the reconciliation was incorrect. As a result, the un-reconciled amount did not mathematically add as indicated on the reconciliation. These errors were not identified during the review process; however, the errors did not lead to a misstatement of the financial statements.

Recommendation:

We recommend that CBP management review monthly ACS-User Fee Database reconciliations to ensure that mathematical inaccuracies are identified and corrected.

CBP – FMC 12-06 – Deficiencies in the Public and Confidential Financial Disclosure Reporting Process (NFR No. CBP 12-10)

During testwork over a sample of 15 employees who filed Office of Government Ethics (OGE) Form 278, Executive Branch Personnel Public Financial Disclosure Reports, in FY 2012, the following deficiency was identified:

- Evidence of review and certification by the Reviewing Official within 60 days of the date of filing for one OGE Form 278 could not be provided.

During testwork over a sample of 45 employees who filed OGE Form 450, Executive Branch Personnel Confidential Financial Disclosure Reports, in FY 2012, the following deficiencies were identified:

- One employee did not complete the OGE Form 450 correctly and the inaccuracies were not identified during the review process.
- Seven employees filed the OGE Form 450 untimely, after the required February 15th filing date.
- Four OGE Form 450 forms were not signed by the Final Reviewing Official within 60 days of the date of filing.

Department of Homeland Security
Financial Management Comments
 September 30, 2012

Recommendations:

We recommend that:

- With regard to the OGE Form 278 condition, ensure final reviewers are notified via email for filings of Associate Chief Counsel, to manually pull the filing by clicking on the “Submitted to Designated Agency Ethics Official (DAEO) w/out required signatures” button. The Final Reviewer may then access and complete his/her review and certification of the employee’s OGE Form 278. In addition, the e-mail transmission from the “Supervisor” will remind the final reviewer to click on the “End Initial Review” button once he has completed a review of a filing, so that the audit trail in the Financial Disclosure Microflow (FDM) will contain the date that the initial review occurred.
- With regard to the OGE Form 450 conditions, continue the implementation of the OGE Form 450 FDM, an automated OGE Form 450 filing process. This electronic OGE Form 450 FDM is operational and will be utilized for both new entrant and annual OGE Form 450s.

In addition, ensure system-generated e-mail notifications will be sent to employees in covered positions regarding their requirement to file, and to supervisors and final reviewers when a filing is ready for their review.

Finally, utilize the electronic OGE Form 450 FDM to provide program offices with the ability to monitor the status of filings for all filers within their organization throughout the filing process.

CBP – FMC 12-07 – Deficiencies in the Performance Management Program (*NFR No. CBP 12-11*)

During testwork over a sample of 15 Senior Executive Service (SES) performance plans, the following deficiency was identified:

- One employee did not assign weights (i.e., numerical quantification) to each employee-specific performance objectives at the beginning of the performance appraisal period. After the issue was identified through testwork, weights were assigned to their employee-specific performance objectives prior to the end of the year-end performance appraisal.

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

- One employee did not have a midyear review;
- One employee did not have initial and midyear performance meetings within the required timeframe; and
- One employee did not have separate initial and midyear performance meetings, but instead conducted one meeting outside of the initial and midyear review timeframes.

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

- Evidence was not provided to support that one employee’s initial performance meeting had been conducted within the required timeframe;
- One employee’s initial plan was not signed by a supervising rating official within the required timeframe; and
- One employee did not have an initial planning meeting or midyear performance review within the required timeframes.

Department of Homeland Security
Financial Management Comments
September 30, 2012

Recommendations:

We recommend that CBP:

- Regarding the Non-SES supervisory and employee programs, continue implementation of the new performance management workflow (Human Resource Business Engine-Performance Management) that will allow the Labor and Employee Relations (LER) Policy Division to closely monitor the progress and timeliness of CBP program offices in their completion of employee performance plan processes. The Human Resource Business Engine -Performance Management workflow will allow LER Policy to prepare reports for program offices to alert them on impending action requirements and deadlines. Additionally, CBP messaging to program offices concerning the initiation of performance plans, completion of mid-cycle performance reviews, and completion of final ratings of record will continue.
- Continue to reinforce the requirement to assign weights for Employee-Specific Performance Objectives to all SES executives when the SES performance agreement for the new fiscal year is issued.

CBP – FMC 12-08 – Insufficient Review of the Consolidated Omnibus Budget Reconciliation Act User Fees and Immigration User Fees Accounts Receivable Estimate (NFR No. CBP 12-13)

An error on the March 2012 listing exported from the User Fee Database, which is used to generate the Accounts Receivable estimate, was not identified prior to recording the monthly Accounts Receivable accrual. The March 2012 listing of the average prior four quarters of collections by carrier was exported to Microsoft Excel and incorrectly stored several amounts as “text” instead of as numbers. Therefore, these amounts were not included in the total for the March 2012 Accounts Receivable estimate.

Recommendation:

CBP corrected the process to resolve the underlying issue with the assistance of an OIT programmer on September 11, 2012. The download now treats all data as “numbers” rather than “text”; the change was tested on September 13, 2012. In addition, future reviews of this report will include specifically checking the individual receivables to ensure this type of error is not occurring.

CBP – FMC 12-09 – Lack of Segregation of Duties over Collections and Deposits (NFR No. CBP 12-16)

During testwork performed at one of the 11 selected Ports of Entry, CBP was unable to provide evidence that an independent verifier confirmed that the deposit ticket subtotals and totals were correct by agreeing them to the cash on hand for two of the three daily collection files selected for testwork.

Recommendation:

We recommend that CBP’s Office of Administration continue to work with the Office of Field Operations to ensure consistent execution of national policy set forth in the *CBP Collections & Deposits Handbook HB 5300-12B*.

Department of Homeland Security
Financial Management Comments
 September 30, 2012

CBP – FMC 12-10 – Weaknesses in the Trade Compliance Measurement Program (NFR No. CBP 12-17)

During testing performed at eleven statistically selected ports of entry, the following condition related to the Trade Compliance Measurement (TCM) program was identified:

- One port was unable to provide evidence that the monthly TCM database was reviewed in a timely manner and signed by a supervisor for all Validation Activities assigned to the Port.

Recommendation:

We recommend that the New Orleans Field Operations (NOFO) continue developing a draft remedial action plan to address the compliance finding and use the audit result as a guide for TCM process improvement at Area ports and Field Operations. NOFO is developing measures to improve documented evidence that the monthly TCM data are timely reviewed and vouched by the assigned port manager. Highlights of the action plan include: reissue Trade Compliance Measurement Policy Memo; TCM reports are downloaded and assigned a unique work number and due date in an automated tracker; this report and tracking number is assigned to Area port management; port management vouch their validation reviews and voucher for the timely completion of the assigned TCM tasking through email; and NOFO TCM Coordinator validates these findings using Automated Commercial Environment (ACE) reports; and NOFO TCM findings along with the emails are reported to close-out the automated tracker for time period.

CBP – FMC 12-11 – Weaknesses in the Review of Weekly Entry Edit/Exception Reports (NFR No. CBP 12-19)

During testwork performed at 11 statistically selected Ports of Entry, the following instances of non-compliance with CBP Directive 5610-006A, *Entry Deletion and Entry or Entry Summary Cancellation*, and CBP Directive 5610-004B, *Resolving Certain ACE Exception and Error Reports*, were noted:

B06 – Weekly ACS List of Rejected/Cancelled Entries Report

- Five ports were unable to provide evidence that the B06 Report was independently verified by personnel other than the individual(s) who cancelled the records and reviewed the reports; and
- Two ports were unable to provide evidence that the B06 Report was reviewed in a timely manner.

B07 – Weekly ACS List of Unpaid/Rejected Entries

- One port was unable to provide evidence that the B07 Report was reviewed in a timely manner.

B08 – Weekly Late Report: Entry Releases with No Follow-Up Summaries

- Two ports were unable to provide evidence that the B08 Report was generated and reviewed;
- One port was unable to provide evidence that the B08 Report was reviewed; and
- One port was unable to provide evidence that the B08 Report was reviewed in a timely manner.

B84 – Weekly Budget Clearing Account and Suspense Item Report

- One port was unable to provide evidence that the B84 Report was generated and reviewed.

Department of Homeland Security
Financial Management Comments
September 30, 2012

S21- Cargo Selectivity Weekly Selectivity Delete Report

- Three ports were unable to provide evidence that the S21 Report was generated and reviewed; and
- Two ports provided S21 Reports that were reviewed by the same individuals who performed the deletions; thus, evidencing improper segregation of duties.

Q07 – Monthly Unreported Quota Report

- One port was not generating and reviewing the Q07 Report for the first five months of the fiscal year and thus, was unable to provide evidence that the Q07 Report was generated for the month selected for testwork.

Recommendation:

We recommend that CBP reinforce the importance of CBP directives 5610-004B (September 2009) and 5610-006A (June 2011) by issuing a reminder memorandum to ensure that the B06, B07, B08, B84, S21, and Q07 are run regularly, as specified in the directives.

CBP – FMC 12-12 – Deficiencies over Monitoring of Ethics Requirements (NFR No. CBP 12-21)

During testwork performed over a sample of 45 new employees, the following instances of non-compliance with ethics training requirements were noted:

- For nine employees, CBP was unable to provide evidence the employee received ethics materials timely, within 90 days of the employee's Effective Date of employment; and
- For two employees, CBP was unable to provide evidence that the employee received ethics materials.

Recommendation:

We recommend that CBP continue to implement the procedures related to tracking the receipt of ethics information by new employees, including:

- Adding the “Acknowledgment of Receipt of Conduct Information” form to the checklist of “Required Employment Forms to Ensure Accurate Human Resources Data,” which must be completed by the first day of employment.
- Completed “Acknowledgment of Receipt of Conduct Information” forms would be stored in an employee’s electronic Official Personnel Folder) on the temporary side.

CBP – FMC 12-13 – Untimely Undelivered Orders (UDOs) Quarterly Review (NFR No. CBP 12-22)

During the walkthrough performed over the first quarterly UDO review process, a deficiency was identified. Specifically, three program offices submitted their Quarterly Certification letter to the NFC after the 21 day deadline. The untimely submission ranged from 7 days to 18 days.

Recommendation:

We recommend that CBP continue to perform outreach to the points of contact in the program offices to obtain a status on the progress of the Quarterly Certification effort.

Department of Homeland Security
Financial Management Comments
September 30, 2012

CBP – FMC 12-14 – Weaknesses in Controls over Customs-Trade Partnership Against Terrorism Benefits (NFR No. CBP 12-23)

During testwork performed over a sample of 45 Customs-Trade Partnership Against Terrorism (C-TPAT) Partners, the following instances of non-compliance with requirements for applying and removing benefits in ACS were identified:

- One C-TPAT Partner had benefits which were not appropriately removed in ACS after being suspended from the C-TPAT program; and
- Three C-TPAT Partners were entitled to benefits but did not have any benefits applied in ACS.

During testwork performed over a sample of 45 C-TPAT Partners, the following instance of non-compliance with requirements for applying benefits in the Web Portal was identified:

- One C-TPAT Partner had fewer benefits than it was entitled to in the Web Portal.

Recommendation:

We recommend that CBP continue to implement procedures to electronically link the processes in Web Portal and ACS.

CBP – FMC 12-15 – Lack of Verification of Refunds (NFR No. CBP 12-24)

During testwork over a sample of 45 refunds performed at the Ports of Entry, we identified one instance where Customs Officers and Port personnel did not verify the duties, fees, charges, or exactions deposited in excess prior to issuing the refund. Specifically, Port personnel issued the refund without confirming the Harmonized Tariff Schedule (HTS) number associated with merchandise on the refund request. As a result, the Port processed and issued a refund based on an expired HTS number. The refund did not result in an over/under payment by CBP as the correct HTS number that should have been associated with the merchandise would have resulted in a refund of the same amount.

Recommendation:

We recommend that CBP provide targeted communication to the noncompliant port to reinforce the importance of the requirements in CBP directive 3710-004B.

CBP – FMC 12-16 – Weaknesses in Controls over the Bond Sufficiency Review Process (NFR No. CBP 12-26)

During testwork performed over 120 Single Transaction Bond (STB) sample items, the following instance of non-compliance with CBP Directive 3510-004 was noted:

- For three STBs selected for Bond Sufficiency testwork, the total value of the bond was not sufficient to cover the total value of the merchandise being imported plus all taxes, duties and fees.

During testwork performed over 120 continuous bond sample items, the following instances of non-compliance with CBP Directive 3510-005 were noted:

Department of Homeland Security
Financial Management Comments
 September 30, 2012

- For seven active Continuous Bonds, the bond amounts were insufficient as they were not greater than 10 percent of all duties, taxes and fees paid by the importer, or broker acting as importer of record, during the previous bond year.
- For two active Continuous Bonds, the Bond Liability Locate screen in ACS accumulated estimated duties, taxes and fees in a future bond year due to a programming issue where the bond years were input as future years (2020 and 2021).

In addition, the following weakness existed over the bond sufficiency process during FY 2012:

- The Bond Sufficiency Report by beginning effective date of bond and the Bond Sufficiency Report by ending effective date of bond generated by the National Finance Center (NFC) do not factor in all duties, taxes, and fees paid by the importer during the previous bond year due to system limitations in ACS. As a result, the report is unable to identify bonds that may be insufficient if the continuous bond amount is set lower than 10 percent of all duties, taxes and fees paid by the importer, or broker acting as importer of record, during the previous bond year.

Recommendations:

We recommend that CBP:

- Continue to provide direction to the field on the sufficient amount of STB coverage when STBs are required in cases where antidumping/countervailing duty (AD/CVD) evasion is suspected. When STBs are requested in such instances, ports are directed to request national cargo criteria to record the STB request. This will allow monitoring of the AD/CVD STBs. CBP should also continue to develop an ebond module in ACE for the electronic submission of all STBs. Ebond should allow for electronic reporting on STB sufficiency.
- Revenue Division continues to utilize the modified monthly reports that capture insufficient bonds.

CBP – FMC 12-17 – Deficiencies in the Seized Inventory Process (NFR No. CBP 12-27)

During physical inventory observation procedures conducted at ten seized property vaults, the following deficiencies were identified:

- At one vault, the log book evidenced that only one person entered the vault for a period of time, for one of the five days selected for testwork.
- At one vault, the amount listed on the CBP Form (CF) 6051, Custody Receipt for Seized Property and Evidence, did not agree with the amount listed in the Seized Asset and Case Tracking System for one of the five CF-6051s selected for testwork.
- At one vault, one seizure in which the weight in the updated Seized Asset and Case Tracking System inventory report did not agree to the amount recorded on the certified inventory count sheets for one of the 45 test counts observed.

Recommendations:

We recommend that CBP:

- Issue a memorandum and assemble the Directors of Field Operations and Ports to inform them of the audit findings and remind them of the proper CBP policies and procedures that guide their activities around the custody, management, accountability of seized property and updating Seized Asset and Case Tracking System within the required time frames.
- Distribute a reminder to the field reminding them of the vault access requirements.

Department of Homeland Security
Financial Management Comments
 September 30, 2012

CBP – FMC 12-18 – Deficiencies in the Review of the Department of Labor (DOL) Chargeback Report (NFR No. CBP 12-28)

CBP's Human Resource Management (HRM) – Office of Workers' Compensation Programs does not perform a review of the DOL Detailed Chargeback Report on a quarterly basis. Rather, a review of significant payments is performed approximately every 12 months. However, a review has not been performed in FY 2012.

Additionally, CBP was unable to provide support for two of the 45 CA-1 Forms, Notice of Traumatic Injury and Claim for Compensation, selected as part of the June 30, 2012 Federal Employees' Compensation Act claims sample.

Recommendations:

We recommend that CBP HRM:

- Continue reviewing the chargeback reports as frequently as possible to identify erroneous claims and work with other Department of Homeland Security (DHS) components to request transfer of these cases and recover erroneous charges through Intragovernmental Payment And Collection (IPAC).
- Continue implementation Occupational Safety and Workers' Compensation Working Group (WCWG), established on July 31, 2012, efforts to study the program's structure, including injury prevention, case management, return-to-work initiatives and review of the quarterly chargeback process.
- Continue addressing issues and logistics relative to retrieving claim forms and data entry of all active previous claims into eComp, CBP's web-based electronic submission and case management system through the WCWG.

CBP – FMC 12-19 – Weaknesses in CBP's Process Related to Recording Construction Percentage of Completion Amounts (NFR No. CBP 12-29)

The following weakness was identified in the controls over CBP's financial recording of the percentage of completion (POC) in FY 2012:

- Lack of an internal review process in the first quarter to determine if all POC amounts were reported correctly. Five projects were inadvertently omitted from the POC accrual, due to a miscommunication between Facilities, Management, and Engineering (FM&E) and the Capital Assets Section. Subsequently, the projects were reported and included correctly in the POC accrual for the remainder of the fiscal year.

Recommendation:

We recommend that CBP continue to implement the FM&E policies updated for FY 2012.

CBP – FMC 12-20 – Untimely De-Obligation of UDOs and Weaknesses in Related Controls (NFR No. CBP 12-30)

During our testwork over CBP's UDO balance as of August 31, 2012, to include both Active and Inactive UDO balances, we selected statistical samples totaling 331 UDOs and noted weaknesses in CBP's monitoring of these obligations. Specifically, the following deficiencies were identified:

- Six instances in which the UDOs were no longer valid and had not been de-obligated, or marked for de-obligation.

Department of Homeland Security
Financial Management Comments
September 30, 2012

- Two instances in which the period of performance (POP) had expired prior to the execution of the next modification for a period of five months and for a period of two years and eight months, respectively.
- One instance in which the contracting officer authorized a modification for a dollar value greater than the contracting officer's warrant authority limit.
- Five instances in which an Invoice Receipt variance was corrected via an "MR11" transaction in SAP, CBP's financial system of record. Due to the program design of SAP, the "MR11" transaction is the only correcting option available in which the variance is related to a service entry sheet. Although the UDO balance is still valid, the "MR11" transaction returned the excess funds to either general ledger (GL) account 4610, Allotments – Realized Resources, or 4650, Allotments – Expired Authority. Thus the UDO balance is understated. Furthermore, the "MR11" transaction, which is essentially a de-obligation, is not reflected in GL account 4871, Downward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations, Recoveries, or 4971, Downward Adjustments of Prior-Year Unpaid Delivered Orders – Obligations, Recoveries. As such, the Recoveries line item on the Statement of Budgetary Resources (SBR) is understated and the transaction is not compliant with the United States Standard General Ledger (USSGL).

As a result of the "MR11" transaction errors identified above, an SAP report was obtained that captured all of the "MR11" transactions recorded during FY 2012. Based on an analysis performed over the report, it was determined that the Recoveries line item on the SBR is understated by approximately \$13 million.

During our testwork over CBP's UDO balance activity during the month of September 2012, we selected statistical samples totaling 102 UDOs and noted weaknesses in CBP's monitoring of these obligations. Specifically, the following deficiencies were identified:

- One instance, related to two sample items, in which the POP had expired prior to the execution of the next modification for a period of approximately one month.
- One instance in which the UDO balance was not valid because the obligation was established in SAP on September 19, 2012; however, the Reimbursable Work Agreement (RWA) was not authorized and executed until FY 2013. As such, the UDO balance was overstated.

Recommendations:

We recommend that CBP:

- Continue to emphasize better communication between the Contracting Officer (CO) and Contracting Officer Representative (COR) to obtain a de-obligation request when appropriate. In addition, complete the review and implementation of revised CBP Directive No. 1220-011E.
- Continue to monitor the POP, especially the end date, on active contract actions to avoid elapse and ensure SAP is updated with the current POP end date.
- Continue to enforce the policy and conduct a random review of award documents to confirm that this is an isolated incident.
- Reevaluate the MR11 business process to determine if the MR11 procedures or SAP postings need to be modified.
- Communicate the procedure for processing RWA obligations to applicable staff and monitor this process to ensure compliance.

Department of Homeland Security
Financial Management Comments
September 30, 2012

CBP – FMC 12-21 – Deficiencies in the Review of Standard Form (SF)-52 Personnel Action Request Tracking System Actions (NFR No. CBP 12-31)

During testwork performed over 45 Personnel Action Request Tracking System (PARTS) actions, one action requiring higher level approval was processed without receiving higher level approval. Specifically, the PARTS action related to the Office of Field Operations (organizational code CU13##) requesting a personnel action for reassignment (personnel action code RA), which requires higher level approval.

Recommendations:

We recommend that CBP's Minneapolis Hiring Center:

- Ensure that all Staffing Specialists understand the business rules, which require higher level approval when using certain personnel action codes; and
- Monitor PARTS actions to ensure the business rules are being properly applied.

CBP – FMC 12-22 – Deficiencies in the Review of Adjusting Journal Entries (JEs) (NFR No. CBP 12-32)

During testwork performed over 131 Standard Voucher transactions as of June 30, 2012, one Standard Voucher was reversed without receiving proper supervisory approval. Specifically, the topside entry recorded in FY 2011 to account for custodial activity for Puerto Rico was reversed in FY 2012 by a Staff Accountant without obtaining supervisory approval.

Recommendation:

We recommend that CBP modify the Regulatory Reports Section's Standard Operating Procedures (SOP) to require review and approval for reversal of JEs.

CBP – FMC 12-23 – Deficiencies in the Inventory and Related Property Process (NFR No. CBP 12-33)

During testwork performed at one of the five Office of Air and Marine (OAM) sites conducting an annual inventory, the following discrepancy was identified:

- An inventory item listed on the count sheet was not physically located on the floor. Upon review, the Inventory Supervisor determined that the part had been shipped out for repair on July 6, 2012, which was prior to the annual inventory. However, the certified count sheets received in the completion package reflected an inventory count of one rather than zero.

During testwork performed over CBP's Certification of OAM Physical Inventories performed for all 34 sites, the following discrepancy was identified:

- One inventory site did not certify its inventory. Upon review, it was determined that the nine items listed as located at this site are actually located at a different site. Furthermore, it was determined that the nine items were counted during the second sites' annual inventory and were identified during the inventory as having the incorrect location code. However, the location code for these nine items was not appropriately updated upon completion of the inventory.

Department of Homeland Security
Financial Management Comments
September 30, 2012

Recommendations:

We recommend that CBP:

- Ensure inventory count sheets at the locations accurately reflect inventory data.
- Ensure inventory data in the systems accurately reflect results of inventory counts.

CBP – FMC 12-24 – Deficiencies in Tracking CBP Leases (NFR No. CBP 12-34)

During testwork performed to verify the completeness of CBP's September 30, 2012 lease population, a sample of 25 lease payments was selected. The following discrepancies were identified:

- Five instances in which a payment was made towards a cancellable personal property lease agreement in which the lease agreement did not appear in CBP's listing of leases as of September 30, 2012.

Based on these findings, discussions were held with CBP management to determine completeness of the Leases footnote. It was determined that the Leases footnote is considered to be complete because the majority of the footnote is comprised of General Services Administration (GSA) leases, which are reconciled directly with a report received from GSA. However, CBP cannot confirm that it has accounted for all of its personal and real property leases. Though a majority of CBP's real and personal property leases are considered to be cancellable, thus minimizing the overall impact on the Leases footnote, the footnote could be misstated because CBP is not aware of all of its existing leases.

Recommendations:

We recommend that CBP:

- Ensure all Property Plant and Equipment (PP&E) procured through leases are properly recorded in SAP.
- In conjunction with efforts to implement the lease scoring tool, utilize the Object Classification Code/Material Classification Code to create SAP asset shell records for assets procured through lease.

Department of Homeland Security
Financial Management Comments
September 30, 2012

II. DOMESTIC NUCLEAR DETECTION OFFICE (DNDO)

DNDO – FMC 12-01 – Deficiencies in the Operating Expense Process (NFR Nos. DNDO 12-01 and DNDO 12-01a)

During testwork over operating expenses for the period October 1, 2011 to March 31, 2012, we noted the following:

- For 33 out of 33 expenses, the Core Accounting System did not record Accounts Payable (USSGL account 2110), Delivered Orders – Obligations, Unpaid (4901), and the relevant asset or expense account at the time goods or services are received. Instead, the Core Accounting System records Delivered Orders – Obligations, Paid (4902) and the related asset or expense account at the time payment is made. DNDO instead records an estimated accrual for assets, expenses, and accounts payable related to the goods or services that have been received, but not yet paid for. As a result, the items are not recorded in the GL until paid for.
- For 17 out of 33 expenses, IPACs do not require CO, COTR, or Authorized Certifying Official (ACO) approval prior to the funds transfer. Therefore, DNDO was unable to provide documentation of when goods/services were received.
- For 4 out of 33 expenses, DNDO associated the incorrect trading partner identification numbers with Federal vendors.

During testwork over operating expenses for the period April 1, 2012 – August 31, 2012, we noted the following:

- For 18 out of 18 expenses, the Core Accounting System did not record Accounts Payable (USSGL account 2110), Delivered Orders – Obligations, Unpaid (4901), and the relevant asset or expense account at the time goods or services are received. Instead, the Core Accounting System records Delivered Orders – Obligations, Paid (4902) and the related asset or expense account at the time payment is made. DNDO instead records an estimated accrual for assets, expenses, and accounts payable related to the goods or services that have been received, but not yet paid for. As a result, the items are not recorded in the GL until paid for.
- For 6 out of 18 expenses, IPACs do not require CO, COTR, or ACO approval prior to the funds transfer. Therefore, DNDO was unable to provide documentation of when goods/services were received.
- For 3 out of 18 expenses, DNDO was unable to provide sufficient supporting documentation for invoices for the Grant samples transaction amount.

During testwork over operating expenses for the period September 1, 2012 – September 30, 2012, we noted the following:

- For 3 out of 3 expenses, the Core Accounting System did not record Accounts Payable (USSGL account 2110), Delivered Orders – Obligations, Unpaid (4901), and the relevant asset or expense account at the time goods or services are received. Instead, the Core Accounting System records Delivered Orders – Obligations, Paid (4902) and the related asset or expense account at the time payment is made. DNDO instead records an estimated accrual for assets, expenses, and accounts payable related to the goods or services that have been received, but not yet paid for. As a result, the items are not recorded in the GL until paid for.
- For 1 out of 3 expenses, IPACs do not require CO, COTR, or ACO approval prior to the funds transfer. Therefore, DNDO was unable to provide documentation of when goods/services were received.

Department of Homeland Security
Financial Management Comments
September 30, 2012

- For 1 out of 3 expenses, DNDO was unable to provide sufficient supporting documentation of invoices for the Grant samples transaction amount.

Recommendations:

We recommend that DNDO:

- Review the IPAC process to improve the validation and approval. The COTRs should record receipt of the services and approval of IPACs prior to the payment being posted.
- Continue to implement a process during month end to ensure the Coast Guard Finance Center (FINCEN) is recording the reclassifications. Additionally, DNDO should continue to review the Journal Voucher (JV) prior to FINCEN recording the entry into the Core Accounting System until all obligations coded incorrectly are liquidated.

DNDO – FMC 12-02 – Deficiencies Related to Monitoring UDOs (NFR No. DNDO 12-02)

During testwork over obligations for FY 2012, we noted the following:

- DNDO's service provider's financial system, the Core Account System does not have adequate transaction codes to process upward/downward adjustments. Manual JV reclassifications are made to record GL 4801, GL 4871, GL 4310 and GL 4590 for the prior year recovery activity. DNDO does not have a process to separately capture upward adjustments (GL 4881, 4882, 4981, and 4982) that are part of the GL 4801 or GL 4901 balance.
- During their quarterly obligation review, management does not request sufficient support to determine if open obligations are valid.
- During testwork over aged UDOs as of September 30, 2012, for 3 out of 5 UDOs, the obligation was determined to be invalid as of September 30, 2012. This resulted in an overstatement of UDOs in the amount of approximately \$342,000 and a likely overstatement of approximately \$23,574,000.

Recommendation:

We recommend that DNDO prioritize reviewing aged UDOs and work closely with the Office of Procurement Operations to close out all aged UDOs with expired POPs.

III. FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)**FEMA – FMC 12-01 – Inability to Link Systems to Significant Grant Programs (NFR No. FEMA 12-01)**

We requested that FEMA provide an analysis to demonstrate the amount of UDOs flowing through each grant system during FY 2012. We asked that the analysis include Catalog of Federal Domestic Assistance Number, Grant Program, Responsible Directorate, Award System, Monitoring System, Grant Identifier, Obligation System, Obligation Amount, Payment System, Payment Amount, and the UDO reconciled balance.

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

Recommendations:

We recommend that FEMA:

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

FEMA – FMC 12-02 – Ineffective Design of Controls Related to Grant Activities (NFR No. 12-05)

Based on control testwork performed over the Payment and Reporting System (PARS) to Integrated Financial Management Information System (IFMIS) reconciliation, we noted that the control is not properly designed. Instead of ensuring that all transactions from PARS reconcile to IFMIS, FEMA has designed the control to only follow-up on system-generated exceptions. FEMA has not verified that the system-generated exception list is complete and accurate. Therefore, the reconciliation currently performed does not ensure that the PARS transactions which were accepted by IFMIS were properly posted and all transactions within PARS were uploaded.

Based on control testwork performed over the March 31, 2012, grant accrual review checklists, we noted several "prepared by" and "reviewed by" boxes had not been signed by the appropriate individuals.

Recommendations:

We recommend that FEMA:

- Enhance current PARS to IFMIS reconciliation procedures to ensure they are performed at a sufficiently detailed level to identify and correct any errors in data transfer activities between the systems.
- Reinforce with FEMA staff the control points established within the quarterly grant accrual checklist to ensure all control activities were completed in the quarterly process.

Department of Homeland Security
Financial Management Comments
September 30, 2012

FEMA – FMC 12-03 – Ineffective Design of Controls Related to Intragovernmental Activities (NFR No. FEMA 12-06)

Based on control testwork performed over the Federal Transit Administration (FTA) advance, we noted the COTR did not review the FTA expenditures as of December 31, 2011, or March 31, 2012, prior to them being recorded in IFMIS.

Recommendation:

We recommend that FEMA develop and implement a process to ensure timely COTR review and approval of FTA expenditures related to advance liquidation.

FEMA – FMC 12-04 – Internal Control Deficiencies Identified over Claims Paid at Selected Insurance Companies that Participate in FEMA’s National Flood Insurance Program (NFIP) (NFR Nos. FEMA 12-07 and FEMA 12-07a)

We selected nine insurance companies and tested a sample of 263 claim payments across those companies covering October 1, 2011 to March 31, 2012. During this testing, we noted the following errors at the insurance companies:

- For one sample item, the date of loss was incorrectly reported.
- For five sample items, a 60-day Proof of Loss waiver was not requested.
- For two sample items, a 60-day Proof of Loss waiver was requested subsequent to payment.
- For one sample item, the Proof of Loss modification letter was not issued in a timely manner.

For the nine insurance companies previously selected, we tested a sample of 126 claim payments across those companies covering April 1, 2012 to June 30, 2012. During this testing, we noted the following errors at the insurance companies:

- For one sample items, a 60-day Proof of Loss waiver was not requested.
- For one sample item, a 60-day Proof of Loss waiver referenced an incorrect claim.
- For two sample items, the claim amount paid did not agree to the final report.
- For two sample items, the claim loss date reported did not match the claim loss date in the claim file.

For the nine insurance companies previously selected, we tested a sample of 45 claim payments across those companies covering July 1, 2012 to August 31, 2012. During this testing, we noted the following error at the insurance companies:

- For one sample item, the claim paid amount did not agree to the final report.

Recommendations:

We recommend that FEMA:

- Follow-up with each of the insurance companies to determine that appropriate corrective action has been implemented to address the exceptions noted.
- Provide increased oversight to insurance companies participating in the NFIP to ensure claims files are being processed and reviewed in accordance with NFIP guidelines before approval and issuance of claim payments.

Department of Homeland Security
Financial Management Comments
September 30, 2012

FEMA – FMC 12-05 – Deficiencies Identified over Premiums Written by FEMA’s NFIP (NFR Nos. FEMA 12-09 and FEMA-12-09a)

We tested a total of 296 written premium transactions during the period October 1, 2011 to March 31, 2012, which included the following: (a) a sample of 270 written premium transactions across nine insurance companies for internal control testwork and (b) a sample of 26 written premium transactions across 13 insurance companies for substantive testwork. We noted the following items:

- For one sample item, we noted the policy was not reviewed and approved by an underwriter in a timely manner.
- For eight sample items, we noted that the designated flood zone per the policy declaration page did not agree to the FEMA flood maps for the insured property address. Based on the incorrect flood zone used, we noted that the policy premium was calculated incorrectly.
- For one sample item, we noted that the designated flood zone per the policy declaration page did not agree to the FEMA flood maps for the insured property address; however, per the *NFIP Flood Insurance Manual*, the premium amount was not affected by the incorrect zone.

We tested a total of 142 written premium transactions during the period April 1, 2012 to June 30, 2012, which included the following: (a) a sample of 135 written premium transactions across nine insurance companies for internal control testwork and (b) a sample of 7 written premium transactions across 7 insurance companies for substantive testwork. We noted the following items:

- For one sample item, we noted the policy was not reviewed and approved by an underwriter in a timely manner.
- For three sample items, we noted that the designated flood zone per the policy declaration page did not agree to the FEMA flood maps for the insured property address. Based on the incorrect flood zone used, we noted that the policy premium was calculated incorrectly.
- For four sample items, we noted that the designated flood zone per the policy declaration page did not agree to the FEMA flood maps for the insured property address; however, per the *NFIP Flood Insurance Manual*, the premium amount was not affected by the incorrect zone.
- For one sample item, we noted that the insured property address information provided on the policy declaration page was insufficient to determine the correct flood zone.

We tested a total of 58 written premium transactions during the period July 1, 2012 to August 31, 2012, which included the following: (a) a sample of 45 written premium transactions across nine insurance companies for internal control testwork and (b) a sample of 13 written premium transactions across 13 insurance companies for substantive testwork. We noted the following items:

- For three sample items, we noted that the designated flood zone per the policy declaration page did not agree to the FEMA flood maps for the insured property address. Based on the incorrect flood zone used, we noted that the policy premium was calculated incorrectly.
- For one sample item, we noted that the insured property address information provided on the policy declaration page was insufficient to determine the correct flood zone.
- For one sample item, we noted that the premium was calculated using the incorrect elevation information on the elevation certificate.

Department of Homeland Security
Financial Management Comments
September 30, 2012

Recommendations:

We recommend that FEMA:

- Follow-up with each of the insurance companies noted above to determine that they have implemented the appropriate corrective action to address the exceptions identified.
- Provide increased oversight to insurance companies participating in the NFIP to ensure they process and review underwriting files in accordance with NFIP guidelines.
- Revise the *NFIP Flood Insurance Manual* to require that all flood zones included in insurance policy applications are subject to verification by an underwriter through the use of risk-based sampling techniques.

FEMA – FMC 12-06 – Ineffective Controls over Procurement Payments and Monitoring Efforts
(NFR No. FEMA 12-10a)

Payments:

- Based on our control testwork performed over a sample of 30 vendor payments for the three-month period ended June 30, 2012, we noted that for 1 of the 30 transactions selected, no receiving report was completed.
- Based on our control testwork performed over a sample of 30 disaster travel payments for the three-month period ended June 30, 2012, we noted that for 1 of the 30 transactions selected, the payment was not properly approved and certified for payment prior to being recorded in the IFMIS.

Monitoring Efforts:

- Based on our control testwork performed over a sample of 25 UDOs with a balance at June 30, 2012, we noted that for 1 of the 25 UDOs selected, the program contact had indicated as of the March 31, 2012, UDO quarterly review that the balance could be de-obligated. As of June 30, 2012, the balance still remained open.

Recommendations:

We recommend that FEMA:

- Develop a monitoring control to ensure proper adherence to existing policies regarding the review and approval of obligations and related expenditures.
- Develop a monitoring control to ensure proper adherence to existing document retention policies and procedures for expenses.
- Execute updates to UDO balances within 30 days of receipt of responses to the quarterly review and annual validation of UDOs.

FEMA – FMC 12-07 – Ineffective Controls over Procurement and Non-Compliance with Federal Acquisition Regulation
(NFR No. FEMA 12-10b)

Based on our control and compliance testwork performed over a sample of six contracts for the three-month period from July 1, 2012 – September 30, 2012, we noted the following exceptions:

- For two of the six contracts tested, the contract file checklist associated with the related contract was not provided.
- For one of the six contracts tested, only the closeout documentation was provided to support the sample.
- For one of the six contracts tested, the contract provided was not signed by the contractor.

Department of Homeland Security
Financial Management Comments
September 30, 2012

Recommendation:

We recommend that FEMA develop and implement a monitoring program to ensure FEMA complies with all aspects of the Federal Acquisition Regulation and any controls implemented (i.e. contract file checklist) to aid in determining compliance with the Federal Acquisition Regulation.

FEMA – FMC 12-08 – Deficiencies in the Monthly Budget Execution Reviews (NFR No. FEMA 12-11)

In July 2011, FEMA management implemented the use of the RM Online system to produce monthly budget execution reports based on approved spend plans and expenditure data extracted directly from the IFMIS data warehouse. Based on our walkthrough and inquiries, we noted that the RM Online system had not been consistently used during FY 2012 to compare spend plans to actual expenditure data. To mitigate deficiencies in the RM Online system, Budget Planning and Analysis Division personnel manually modified the reports generated by the system to perform monthly budget execution reviews; however, no documented controls existed over the preparation and review of these manual budget execution reports.

Recommendation:

We continue to recommend that FEMA revise standard operating procedures, including appropriate internal controls, over the preparation and review of monthly budget execution reports to ensure that: (1) a consistent process is established and implemented to monitor budget execution; (2) the information systems used for monitoring budget execution are aligned with FEMA's business processes; and (3) proper review of the monthly budget execution reports are performed prior to posting on FEMA's intranet.

FEMA – FMC 12-09 – Deficiencies Identified in the Integrated Financial Management Information System Chart of Accounts and Transaction Codes (NFR Nos. FEMA 12-12 and FEMA 12-12a)

Based on our review of FEMA's FY 2012 IFMIS chart of accounts as of June 30, 2012, we noted the following exceptions:

- Ten accounts listed in the IFMIS chart of accounts were not listed within the 2012 USSGL Chart of Accounts.
- Four accounts were incorrectly labeled in the IFMIS chart of accounts, when compared to the 2012 USSGL Chart of Accounts.
- Four accounts were mapped incorrectly or listed under the wrong primary account in the IFMIS chart of accounts, when compared to the 2012 USSGL Chart of Accounts.
- Two accounts that were not included in the 2012 USSGL Chart of Accounts were marked as removed, but still existed within the IFMIS chart of accounts.

Based on our testwork performed over a sample of 24 transaction code numbers and 75 total transaction code transactions as of June 30, 2012, we identified that 17 transaction code transactions were not in compliance with the USSGL.

Based on our testwork performed over a sample of six transaction code numbers and 23 total transaction code transactions as of September 30, 2012, we identified that eight of the 23 total transaction code transactions selected for testwork were not in compliance with the USSGL.

Department of Homeland Security
Financial Management Comments
 September 30, 2012

Recommendations:

We recommend that FEMA:

- Develop and implement a monitoring process to periodically review the IFMIS chart of accounts to ensure it is in compliance with the USSGL.
- If prior year accounts are necessary to post beginning balances, develop and implement procedures to ensure accounts are deactivated timely once beginning balances are recorded.
- Develop a comprehensive transaction code crosswalk to determine whether IFMIS transaction codes are in compliance with the USSGL and why some transaction codes deviate from the USSGL.
- Review SOP 2600-004 to ensure the SOP properly addresses compliance with the USSGL, and update as necessary.

FEMA – FMC 12-10 – Deficiencies in the Preparation and Review of the Government Accountability Office (GAO) Financial Audit Manual 2010 – Checklist for Federal Accounting (NFR No. FEMA 12-14)

Upon independent review of FEMA’s initial Checklist as of March 31, 2012, we determined FEMA did not properly complete all questions in the Checklist, as follows:

- Responses to five questions which provided options for accounting methods included one response and did not indicate which option was applicable.
- Eleven explanations provided in the Checklist required more information per the Checklist instructions.
- Responses to four questions were not consistent with the accounting policies and operations currently implemented at FEMA.

Although the Checklist was reviewed for completeness, accuracy, and validity and approved by FEMA management in accordance with the FY 2012 DHS Office of Financial Management (OFM) *Component Requirements Guide for Financial Reporting*, inconsistencies in the Checklist noted were not identified by the review.

Recommendation:

We recommend that the FEMA Office of Chief Financial Officer (OCFO) develop and implement standard operating procedures over the annual preparation and review of the GAO Financial Audit Manual 2010 – Checklist for Federal Accounting.

FEMA – FMC 12-11 – Deficiencies in the Development of Mission Assignment Policies and Procedures (NFR No. FEMA 12-15)

Under SOP Number 2600-007, *Financial Processing of Mission Assignments*, dated March 20, 2012, FEMA requires mission assignment-related UDO balances to be validated annually as of June 30th of each year. Per Section 4-5 III. B of the SOP:

“FEMA Finance Center Integrated Planning System retains copies of all validation correspondence with the Other Federal Agencies (OFAs) and Recovery Offices in the respective mission assignment file. FEMA Finance Center Integrated Planning System reviews OFA responses and follows up with OFAs as needed. If an OFA has not provided validation or responded to the quarterly reviews and/or the annual validation request, FEMA, on a case- by-case basis, will follow up with the OFA to request validation and provide notification that continued non-response beyond the deadline will

Department of Homeland Security
Financial Management Comments
 September 30, 2012

result in FEMA Finance Center recommendation to the mission assignment Manager to initiate close-out. Such correspondence is addressed to the OFA and Recovery Office.”

However, FEMA does not designate an escalation process or closeout timeline to ensure the mission assignment UDO balance is validated or closed out prior to fiscal year-end.

Recommendation:

We recommend that FEMA develop and implement an escalation process and closeout timeline for instances where the OFA does not provide validation of the mission assignment in a timely manner.

FEMA – FMC 12-12 – Inadequate Documentation Related to Payroll Processing and Lack of Formal Policies and Procedures (NFR No. FEMA 12-17)

Based on process walkthroughs and interim internal control testwork, we determined FEMA does not have policies and procedures for resolving leave error discrepancies.

We identified a control gap related to the lack of reconciliation between payroll data submitted through Web Time and Attendance (WebTA) and payroll disbursements by the National Finance Center.

From a sample of 45 individuals selected for leave error resolution testwork, we identified 28 leave errors that were not corrected within one pay period. Additionally, of those 28 errors, 13 errors were not corrected by year-end.

From a sample of 15 new hires selected for testwork over the review and approval of SF-52, we identified two instances in which SF-52 were not approved by the Budget Division. We also identified one instance in which the SF-52 was approved after the employee started with the agency.

From a sample of 58 individuals selected for payroll compliance testwork, we identified the following instances in which FEMA was unable to provide the following supporting documentation:

- Three Notices of Personnel Action Forms (SF-50s) – documents an employee’s pay grade/step, position, salary information, employment date, etc.
- Three Leave and Earnings Statements – documents an employee's pay and leave status for each pay period.
- Four WebTA records – employee’s official timesheet for the pay period.
- 19 Federal Employees’ Health Benefits (FEHB) election forms.
- 27 Thrift Savings Plan (TSP) election forms.
- 22 Federal Employees’ Group Life Insurance (FEGLI) election forms.
- Any NFC screen prints for all 58 sample items.

Recommendations:

We recommend FEMA:

- Develop, approve and implement policies and procedures for resolving leave error discrepancies.

Department of Homeland Security
Financial Management Comments
September 30, 2012

- Implement a control to reconcile payroll information submitted to NFC through WebTA with the related disbursement made by NFC.
- Formalize and monitor the control over the review and resolution of leave error discrepancies.
- Ensure all SF-52 forms are properly approved in a timely manner as required.
- Maintain adequate documentation for all payroll information, including benefit elections and approved salary amounts.

FEMA – FMC 12-13 – Ineffective Monitoring of Internal Controls via the Internal Control Board
(NFR No. FEMA 12-18)

FEMA established the Internal Control Board to take on the responsibilities for developing and implementing formal processes to provide oversight of internal control assessments and improvements; establish a FEMA-wide accountability structure; and monitor ongoing internal control activities. In FY 2012, FEMA could not provide evidence indicating Internal Control Board meetings were held in accordance with the Internal Control Board Charter.

Recommendation:

We recommend FEMA hold Internal Control Board meetings in accordance with its charter, or revise its charter to utilize established management meetings to monitor internal controls and document the minutes of those meetings.

FEMA – FMC 12-14 – Lack of Documentation Related to the Contingent Legal Liabilities Review
(NFR No. FEMA 12-19)

As of June 30, 2011, Financial Statements and Reporting Branch (FSRB)-3013, *Contingent Legal Liabilities Review and Disclosure*, established an SOP over contingent legal liabilities for FEMA's Office of Chief Counsel and OCFO FSRB, which is located within the Financial Management Division.

In preparing these SOPs, management referred to DHS Financial Management Policy Manual Chapter 3.10 Legal Liabilities; DHS Delegation 0400.2, Delegation to the General Counsel, dated September 14, 2004; DHS Delegation to the General Counsel Regarding Claims Authority, dated March 9, 2007; and DHS Component Requirements Guide for Financial Reporting.

The FSRB Chief did not document her review of the interim contingent liability information as of June 30, 2012, as required by the *Contingent Legal Liabilities Review and Disclosure* SOP.

Recommendation:

We recommend that FEMA document its review of the contingent legal liability accrual and disclosure in accordance with its written policies and procedures.

Department of Homeland Security
Financial Management Comments
September 30, 2012

FEMA – FMC 12-15 – Deficiencies Identified over Claims’ Loss Reserves at Selected Insurance Companies that Participate in FEMA’s NFIP (NFR Nos. FEMA 12-20 and FEMA 12-20a)

We selected nine insurance companies and tested a sample of 263 claim payments and across those companies covering October 1, 2011 to March 31, 2012, and 65 loss reserve balance as of March 31, 2012, across all NFIP insurance companies. During this testing, we noted the following errors at the respective insurance companies:

- For three sample items, the claim and related loss reserve were not closed without payment in a timely manner, causing reserves to be overstated.
- For one sample item, the incorrect type of loss reserve related to the claim transaction was established.
- For one sample item, the loss reserve related to the claim transaction was not updated properly to move reserves from Building to Contents, causing Building reserves to be overstated and Contents reserves to be understated.
- For 29 sample items, the loss reserve related to the claim transaction was not updated properly to reflect claim payments or additional adjustor reports, causing reserves to be overstated or understated.
- For one sample item, reserves were incorrectly re-established for a claim that was previously closed without payment, causing reserves to be overstated.
- For one sample item, the loss reserve related to the claim transaction was not established for a supplemental payment request. Payment was not made in a timely manner, causing reserves to be understated.
- One insurance company did not adjust loss reserves based on the final report. Additionally, for 20 sample items at that company, the loss reserve related to the claim transaction was not updated upon receipt of the final report.

We selected nine insurance companies and tested a sample of 171 claim payments across those companies covering April 1, 2012 to August 31, 2012 (126 as of June 30, 2012 and 45 as of August 31, 2012) and 65 loss reserve balances as of August 31, 2012 across all NFIP insurance companies noting similar types of errors as identified through March 31, 2012.

Recommendations:

We recommend that FEMA:

- Follow-up with each of the insurance companies to determine that appropriate corrective action has been implemented to address the exceptions noted.
- Provide increased oversight to insurance companies participating in the NFIP to ensure the specific and consistent establishment and reporting of loss reserves and subsequent adjustments to the loss reserves.

FEMA – FMC 12-16 – Issues Identified in Journal Voucher Testwork (NFR Nos. FEMA 12-23 and FEMA 12-23a)

Based on our journal voucher (JV) testwork as of March 31, 2012, we noted that for 1 of 51 JV sample items the vendor code per the hard copy JV did not agree to the transaction posted in IFMIS. The entry recorded in IFMIS was correct; however, the hard copy JV did not properly reflect the correct attributes indicating the hard copy JV document was not properly reviewed and approved.

Department of Homeland Security
Financial Management Comments
September 30, 2012

We noted 7 of 51 JV sample items were corrections of previous JVs that would not have been necessary if the original entry was properly reviewed and approved to determine if the budget object classification code (BOC) was proper.

Based on our JV testwork as of June 30, 2012, we noted that for 1 of 40 JV sample items the original entry was recorded in the reverse order. The incorrect entry required a correcting entry to properly post the transaction. The entry should have been reviewed to ensure proper posting logic prior to the entry being recorded in IFMIS.

We noted for 1 of 40 JV sample items, the amount per the hard copy JV did not agree to the transaction posted in IFMIS. The incorrect amount indicates the hard copy JV was not properly reconciled to the posting in IFMIS prior to being reviewed and approved.

We noted for 2 of 40 JV sample items, the entries posted did not support FEMA's intended underlying transaction. The entries improperly impacted the SBR. As the entries were only intended to reclassify attributes, and not impact account balances, the entries were improper and should not have been recorded. The incorrect entries required additional entries to post the correct activity and correct the balances.

We noted 1 of 40 JV sample items should not have been recorded as the correct entry was already recorded via another JV, causing this JV to be unnecessary. The incorrect entry required an additional entry to reverse the improper effect.

Based on our JV testwork as of September 30, 2012, we noted that for 1 of 37 JV sample items the hard copy JV did not agree to the transaction posted in IFMIS. The hard copy JV indicated the JV should be set up to auto reverse and the JV was not set to auto reverse in IFMIS. Therefore, the entry recorded in IFMIS did not properly reflect the hard copy JV document that was reviewed and approved.

We noted 4 of 37 JV sample items were not in full compliance with the USSGL and additional USSGL guidance included in the *Guide for Basic Accounting Reporting for Direct Loan Programs without Collateral in Federal Credit Program*.

Recommendation:

We recommend that FEMA dedicate sufficient resources to ensure JVs are timely and thoroughly researched, reviewed, and approved prior to entering them into IFMIS. Proper review should include determining that the correct BOCs and USSGL accounts are used in the JVs.

FEMA – FMC 12-17 – Non-Compliance with the Prompt Payment Act (NFR No. FEMA 12-24)

Based on our testwork performed over a sample of 78 vendor payments made during FY 2012, we noted that four of the payments were not made within the required time period (within 30 days of the receipt of the invoice or acceptance of goods) and FEMA did not pay the required interest penalty for the late payments.

Department of Homeland Security
Financial Management Comments
September 30, 2012

Recommendations:

We recommend that FEMA:

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

FEMA – FMC 12-18 – Lack of Communication to Employees Regarding the Department of Homeland Security Office of Inspector General Hotline and the Code of Conduct (NFR No. FEMA 12-25)

Based on testwork conducted over a sample of 15 employees as to whether they were aware of the DHS/FEMA Code of Conduct and knew how to access the DHS/FEMA Code of Conduct, we noted one employee did not provide a response to our question.

Additionally, based on testwork performed over a sample of 15 FEMA employees questioned as to whether they were aware of the DHS Office of Inspector General Hotline, we noted one employee did not provide a response to our question.

Recommendation:

We recommend that FEMA management improve communications to their employees regarding the existence of the DHS Office of Inspector General Hotline and the FEMA Code of Conduct, their importance, and the situations in which the hotline should be used.

FEMA – FMC 12-19 – General Office of Chief Procurement Officer Lack of Responsiveness and Process Knowledge (NFR No. FEMA 12-26)

Contract File Maintenance:

During our testwork over vendor contract obligations as of March 31, 2012, we requested complete contract files for each selected sample. We noted that the Office of Chief Procurement Officer (OCPO) was unable to provide complete contracts, identify requested obligation documents, or identify the documents required under Federal Acquisition Regulations for various samples selected. Furthermore, we noted that various samples were not provided in a timely or efficient manner.

General Document Availability:

During our testwork over vendor contract validity, we requested documentation to support the validity, including the period of performance, for a selected sample of 168 contracts. We noted that OCPO was unable to provide support for the validity of the vendor contracts. As an alternative procedure, the FEMA Finance Center was able to provide documentation supporting vendor payment activity to validate the selected balances.

General Procurement Knowledge and Personnel Accessibility:

- When asked questions regarding common procurement documents, such as contracts or invoices, we noted that OCPO employees were not familiar with or were not knowledgeable of the subjects and would request that we discuss questions with other points of contact.

Department of Homeland Security
Financial Management Comments
 September 30, 2012

Recommendations:

We recommend that OCPO:

- Implement a uniform system of document retention and organization and set clear guidelines on documentation uniformity.
- Implement a clear set of guidelines and responsibilities for all employees in a financial procurement capacity. OCPO should conduct training so employees are aware of responsibilities assigned to them and knowledgeable of their process areas.

FEMA – FMC 12-20 – Inability to Closeout Assistance to Firefighter Grants (NFR No. FEMA 12-27)

During our testwork performed over Assistance to Firefighter Grants (AFG), we noted that system closeout issues continue to exist in FY 2012. Although a manual process was implemented in June 2011, currently, only grant awards from FY 2002 through FY 2007 are being closed out manually. Continuing issues prevented closeouts related to grant awards from FY 2008 through FY 2010. (The award process for AFG grants takes place during the 4th quarter of the fiscal year; as such, FY 2011 AFG grants do not require closeout in the current fiscal year.)

Recommendations:

We recommend that the Grants Program Directorate:

- Implement planned modifications to the AFG system that are designed to enable the closeout of AFG awards from FY 2008 through FY 2010.
- Utilize the established manual closeout process for AFG awards prior to FY 2008 and for subsequent awards until the system capability exists to complete closeouts.

FEMA – FMC 12-21 – Deficiencies in the Monitoring of Staffing Requirements (NFR No. FEMA 12-30)

When reperforming the reconciliation of the OCFO staffing roster as of August 2012 with the OCFO organizational chart as of August 2012, we noted 21 instances in which the staffing roster had not been updated based on updates to the organizational chart.

Recommendations:

We recommend that FEMA:

- Develop and implement policies and procedures to update the OCFO staffing roster timely. These policies and procedures should include a control to ensure the staffing roster is accurate and is reconciled to the organizational chart on a periodic basis.
- Monitor the effectiveness of the newly developed and implemented control.

FEMA – FMC 12-22 – Improvements Needed in Management’s Review of the Legacy Preparedness Accrual Model (NFR No. FEMA 12-31)

Our review of FEMA’s legacy preparedness grant accrual process revealed the following deficiencies within the process as of March 31, 2012:

- Variances between estimated and actual advances and liabilities that exceed the acceptable variance range thresholds established by FEMA policies were not adequately addressed. The advance variances at September 30, 2011, and December 31, 2012, were \$16.4 million and

Department of Homeland Security
Financial Management Comments
September 30, 2012

\$(49.4) million respectively. Additionally, the liability variances at September 30, 2011, and December 31, 2012, were \$130.8 million and \$(291.3) million respectively.

Our review of FEMA's legacy preparedness grant accrual process revealed the following deficiencies within the process as of September 30, 2012:

- The underlying drawdown data used to formulate the accrual amount was understated during the September 30, 2012, model application. We noted that due to a PARS system error on July 12, 2012, all drawdowns on that day were entered manually under one user id and as such were not included in the model's original underlying data for one user id. The total drawdown omission amount, approximately \$105,571,000, which had an impact of approximately \$5 million. FEMA did not record an on-top adjustment related to the discrepancy.
- The underlying data, as confirmed with grantees, contained several discrepancies between the expenditures reported and those used in the accrual model. Upon review of these amounts, we noted that several differences were due to timing errors (between FEMA and the Grantee's reporting systems). Several of the amounts, however, were discrepancies due to an internal PARS error. Within PARS, grantees are able to submit expenditures in the 90 day period following the submission of a final Federal Financial Report and date those expenditures to the final Federal Financial Reports. As grantees are able to report expenditures to prior Federal Financial Reports, the expenditure data used in the September 30, 2012, model includes expenditures from the fourth quarter. FEMA was unable to provide a complete population of all expenditures reported in the fourth quarter that were back-dated to final Federal Financial Reports (from the 3rd quarter). As such, FEMA was unable to quantify the amount of the information that should have been excluded from the underlying model data.
- Variances between estimated and actual advances and liabilities that exceed the acceptable variance range thresholds established by FEMA policies were not adequately addressed. The liability variance at June 30, 2012, was \$105.8 million.

Our review of FEMA's Grants and Training grant accrual process revealed the following deficiency within the process for the FY 2012:

- The management review of the acceptable variance range is only completed annually and was not completed for FY 2012.

Recommendations:

We recommend that FEMA management:

- Conduct training to ensure that the individuals responsible for preparing and reviewing the grant accrual clearly understand their roles and responsibilities for the preparation and review of the grant accruals.
- Review and resolve, and document the resolution of large variances between estimated and actual advances and liabilities, including assessing the reasonableness of the estimation methodology.
- Conduct training to ensure grantees understand the SF-425 form and complete it properly.

FEMA – FMC 12-23 – Untimely Reduction of Invalid Unfilled Customer Orders (UCOs) (NFR No. FEMA 12-32)

In two samples of 20 total opening UCO balances, we identified seven errors that overstated the opening balance by \$75 million and three additional errors that understated the balance by \$27 million. In interim and final samples of 7 items and 6 items, respectively, we identified 1 error that overstated the ending balance by \$17 million and 4 errors that overstated the balance by \$54 million.

In each of the samples, we identified agreements with expired POPs, balances unsupported by open obligations, unsupported JVs, or inaccurately recorded cash collections. Several of the current year exceptions were transactions that should have been recorded in prior years.

Recommendation:

We recommend that FEMA develop procedures to monitor the status of recorded UCOs to determine that they remain valid and accurately recorded. We further recommend that FEMA consider implementing management level reviews to routinely review the aging of UCOs.

FEMA – FMC 12-24 – Improvements Needed in Management’s Review of the Acceptable Variance Range for the SmartLink Accrual Model (NFR No. FEMA 12-34)

Our review of the SmartLink grant accrual process revealed the following deficiencies within the process as of March 31, 2012:

- A variance between estimated and actual advances that exceed the acceptable variance range thresholds established by FEMA policies was not adequately addressed. The advance variance at December 31, 2011, was \$26.9 million. This discrepancy fell outside the target error rate for the advance estimates for the SmartLink grant accrual.

Our review of the SmartLink grant accrual process revealed the following deficiencies within the process as of September 30, 2012:

- Variances between estimated and actual advances and liabilities that exceed the acceptable variance range thresholds established by FEMA policies were not adequately addressed. The advance variance at March 31, 2012, was \$23.1 million. Additionally, liability variances at June 30, 2012, and March 31, 2012, were \$86.6 million and \$96.1 million, respectively. These discrepancies fell outside the target error rate for the advance and liability estimates for the SmartLink grant accrual.

Our review of the SmartLink grant accrual process revealed the following deficiency within the process for FY 2012.

- The management review of the acceptable variance range is only completed annually and was not completed for FY 2012. The most recent acceptable variance range review was documented on December 31, 2010.

Recommendations:

We recommend that FEMA management:

- Review, resolve, and document the resolution of large variances between estimated and actual advances and liabilities, including assessing the reasonableness of the estimation methodology.

Department of Homeland Security
Financial Management Comments
 September 30, 2012

- Conduct training to ensure grantees understand the SF-425 form and complete it properly.

FEMA – FMC 12-25 – Deficiencies in the Methodology and Controls Related to the Non-Grant, Non-Intragovernmental Accounts Payable Accrual (NFR No. FEMA 12-37)

Based on our review of the accounts payable accrual model methodology, an accounts payable accrual is not generated for the following fund codes and BOCs, and the Intergovernmental Accrual Process does not specifically address the accrual process for the following funds:

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

During testwork performed over the September 30, 2012, accounts payable accrual, we noted that upon request for the reconciliation of the UDO data used to calculate the UDO constraints in the JV Limit tab to the GL, FEMA noted a discrepancy of nearly \$2 billion between the GL and the UDO data included in the model. As the UDO data used to calculate the JV Limit tab was understated, this resulted in an inaccurately low JV Limit, which resulted in the original submission of the accrual to be understated by \$15 million.

Recommendations:

We recommend that FEMA:

- Incorporate an assessment of the BOCs and funds noted above into the Quarterly Accounts Payable Accrual Process and document the assessment.
- Adequately perform and review all steps listed on the accounts payable accrual model checklist to ensure inputs to the model are accurate.

FEMA – FMC 12-26 – Deficiency Identified Related to the Preparation and Review of the Retrospective Review Analysis (NFR No. FEMA 12-38)

The December 31, 2011, retrospective review completed by the third party contractor actuary and reviewed by the FEMA actuary did not include a comprehensive discussion of the large redundancy (\$1.3 billion) of the actuarial insurance liability calculated as of September 30, 2011.

Recommendation:

We recommend that FEMA incorporate a comprehensive analysis of any large fluctuations noted in the actual to estimate comparison of the insurance liability in the retrospective review performed.

FEMA – FMC 12-27 – Deficiencies in the Verification and Collection of Required Supplementary Stewardship Information and Performance Measurement Data for the Annual Financial Report's Management's Discussion and Analysis (NFR No. FEMA 12-39)

In the FY 2012 DHS *Annual Financial Report*, FEMA did not report any Required Supplementary Stewardship Information for Nonfederal Physical Property. However, as part of

Department of Homeland Security
Financial Management Comments
September 30, 2012

FEMA's operations, grants are made to State and Local Governments for construction and equipment. FEMA does not currently have an official policy related to these expenditures and does not track the amount of such expenditures.

In the FY 2012 DHS Annual Financial Report, information for one performance measurement was not provided by FEMA's program offices.

Recommendations:

We recommend that FEMA:

- Develop and implement policies and procedures to account for Nonfederal Physical Property that includes determining the proper reporting requirements and the monitoring of the materiality of such items.
- Develop and implement a process to ensure that performance measures can be objectively tracked, calculated, and verified.
- Develop and implement a review process to validate the data and the performance measurement calculations prior to submission to DHS.

Department of Homeland Security
Financial Management Comments
September 30, 2012

IV. FEDERAL LAW ENFORCEMENT TRAINING CENTER (FLETC)

FLETC – FMC 12-01 – Deficiencies in the Financial Disclosure Reporting Process (NFR No. FLETC 12-01)

During testwork over a sample of three employees who filed OGE Form 278, Executive Branch Personnel Public Financial Disclosure Reports, and three employees who filed OGE Form 450, Confidential Financial Disclosure Report, in FY 2012, the following deficiencies were identified:

- One incumbent employee's OGE Form 278 was not signed and dated by the reviewing official. (We noted evidence of review on the hard copy document, but the electronic signature was not included on the form.)
- Two incumbent employees' OGE Form 450s were not signed and dated by the reviewing official in a timely manner. Evidence that initial review and request for additional information within 60 days of filing was not provided. The time period between the initial review, submission of the required information by the filers and the final signature of the ethics official was approximately six months.

Recommendations:

We recommend that FLETC:

- Revise its internal process to require that the reviewing attorney annotate in the comment section the date of the initial review and the due date for the requested information.
- Initiate a more formal process for requesting the additional information as well as a suspense system for the files for which additional information was requested.

FLETC – FMC 12-02 – Deficiencies in the Review of SF-50s (NFR No. FLETC 12-03)

During our payroll testwork we identified two employees for which we were unable to recalculate their benefit contribution amounts and noted multiple instances where we could not obtain adequate documentation for these two sample items.

Recommendations:

We recommend that FLETC:

- Ensure that staff is aware of FEGLI coverage eligibility and provide periodic training on the necessary requirements.
- Maintain all benefit forms in an accessible place to ensure that benefit forms are available upon request and that the employee's elections are up to date.

V. UNITED STATES CITIZENSHIP AND IMMIGRATION SERVICES (USCIS)

USCIS – FMC 12-01 – Inadequate Policies and Procedures over the Review of Personnel Actions (NFR No. USCIS 12-01)

During the walkthrough over the processing of SF-52 forms, KPMG noted that prior to May 1, 2012, the same individual could request and authorize the personnel actions. As such, KPMG determined that prior to May 1, 2012, USCIS did not have proper segregation of duties in place over the processing of SF-52s.

Recommendations:

We recommend that USCIS:

- Human Resources Operations Center (HROC) continues to monitor the status of Electronic System for Personnel (ESP) roles and responsibilities. The Systems Team should conduct a quarterly review with its customers (as already highlighted in the updated SOP) to ensure accuracy of roles and thus comply with the requirement to separate roles within ESP.
- The Quality Team within HROC should conduct periodic internal audits to ensure accuracy and completeness of the corrective action.

USCIS – FMC 12-02 – Insufficient Reconciliation Between the Purchase Request Information System (PRISM) and Federal Financial Management System (FFMS) (NFR No. USCIS 12-02)

USCIS did not sufficiently address the risk that obligation data from PRISM is not recorded timely into FFMS for the period from October 1, 2011 – May 31, 2012. USCIS performed a reconciliation of data from USASpending.gov to FFMS during this period, however we identified that this process causes USCIS to inadvertently rely on the transfer of information from Federal Procurement Data System – Next Generation to USASpending.gov. USCIS did not implement other procedures to assess the completeness and accuracy of the data transfer from Federal Procurement Data System – Next Generation to USASpending.gov.

We noted that USCIS performed a review of open commitments which partially mitigates the condition noted above. However, the review was not performed regularly (e.g., quarterly), and is not formally documented with management review and approval. As of June 30, 2012, USCIS had performed the open commitments review twice: once in February and once in May.

We also noted that USCIS retroactively reconciled PRISM to FFMS for the period October 1, 2011 – May 31, 2012 on June 5, 2012.

Recommendation:

We recommend that USCIS continue to perform a monthly reconciliation of PRISM to FFMS as was started in June 2012.

Department of Homeland Security
Financial Management Comments
September 30, 2012

USCIS – FMC 12-03 – Potential Non-Compliance with Office of Government Ethics (OGE) Form 450 Filing Requirements (NFR No. USCIS 12-03)

USCIS did not obtain and review all of the required OGE Form 450 *Confidential Financial Disclosure Report* forms from its employees by the February 15, 2012, deadline. This deadline is imposed by the OGE.

Recommendation:

We recommend that USCIS ensure that the OGE Form 450 policies and procedures are understood and implemented.

USCIS – FMC 12-04 – USCIS Contracting Officers Disregarded DHS Invoice Approval Requirements (NFR No. USCIS 12-04)

During FY 2012, USCIS identified that contracting officers (COs) within the Contract Administration Division provided Contracting Specialists with pre-signed labels for use in approving invoices on cost-type contracts where CO approval is required.

The pre-signed labels were typically used by Contracting Specialists when there was uncertainty as to whether an invoice for a cost-type contract would be approved in a timely manner (e.g. when the CO was out of the office).

Recommendation:

There are no recommendations as corrective action was taken during FY 2012.

USCIS – FMC 12-05 – Insufficient Review of Journal Entries (NFR No. USCIS 12-05)

KPMG selected 45 manual journal entries (JEs) for control and substantive testwork, and noted the following errors:

- General Journal # 15099548: USCIS recorded the reclassification of balances within Treasury Account Fund Symbols (TAFS) 705106 using the incorrect percentages to allocate the funds between trading partners 16, 49 and 70. As a result of the error, trading partner balances totaling approximately \$10 million were misstated within the following Standard General Ledger (SGL) accounts:
 - 2985, Liability for Non-Entity Assets Not Reported on the Statement of Custodial Activity;
 - 5993, Offset to Non-Entity Collections - Statement of Changes in Net Position; and
 - 5994, Offset to Non-Entity Accrued Collections - Statement of Changes in Net Position.

KPMG noted that the overall SGL balances were correct, but that the individual trading partner balances within the SGL account were misstated.

Recommendations:

We recommend that USCIS:

- Automate the calculation of the trading partner allocation to reduce the potential for using the incorrect allocation percentages.

Department of Homeland Security
Financial Management Comments
September 30, 2012

- Periodically check the allocation balance to ensure the recorded allocation by trading partner is consistent with the required allocation.

USCIS – FMC 12-06 – Inaccurate Data in the Claims 3, Claims 4, and Marriage Fraud Amendment Systems (NFR No. USCIS 12-06)

KPMG conducted testwork over the FY 2012 third and fourth quarter list-to-floor audits and noted the following:

- In the third quarter of the audit, 179 of the 680 samples, or 26.3%, were determined to be not pending by USCIS. In the fourth quarter of the audit, 207 of the 680 samples, or 30.4%, were determined to be not pending by USCIS. These error rates are indicative of a deficiency in internal control in the application adjudication process and exist on USCIS' largest application tracking systems: Claims 3 (C3), Claims 4 and Marriage Fraud Amendment Systems (MFAS).
- The deferred revenue quarterly sampling and verification process identifies discrepancies in the status of applications where errors between the system query results and the hard copy application exist; however, the faulty data was not corrected within the systems.

Recommendation:

We recommend that USCIS focus on the controls and reporting functions incorporated in Electronic Immigration System to ensure the new application tracking system will allow for the direct reporting of the deferred revenue. The controls over the application status should eventually allow USCIS to retire their legacy tracking systems and replace the current estimation process.

USCIS – FMC 12-07 – Insufficient Reivew of Deposit Transactions (NFR No. USCIS 12-07)

During testwork over a sample of 45 deposits, we noted that for 5 transactions, the Burlington Finance Center recorded a portion of the deposit amount to the incorrect item type. In each instance, the amount of the entry was correct and the item types (incorrect and correct) were recorded within the correct TAFS. As such, no financial statement misstatement was identified as a result of the errors.

Recommendation:

We recommend that USCIS and ICE evaluate the errors made and implement the controls that are deemed necessary for this process, possibly including an automation of this process where possible.

USCIS – FMC 12-08 – Inadequate Monitoring of Fee Table Changes in Deferred Revenue Estimate Process (NFR No. USCIS 12-08)

KPMG performed testwork over the third quarter list-to-floor samples and noted the following:

- The original fee amount per the system did not agree to the historical fee table for 260 of the 680 samples. Of the errors noted, 186 samples were C3 applications and 74 were MFAS applications.

Department of Homeland Security
Financial Management Comments
 September 30, 2012

- The current fee table became effective on November 23, 2010. The C3 and MFAS systems were not properly coded to pull the new fee amounts for applications with receipt dates after November 23, 2010.

Recommendation:

There are no recommendations as USCIS remediated the deficiency in the current year, and we performed testwork over the remediation, noting no exceptions.

USCIS – FMC 12-09 – Deficiencies in the Recording of Internal Use Software (NFR No. USCIS 12-09)

As a result of USCIS's review of Office of Transformation Coordination and Office of the Chief Information Officer costs, USCIS recorded the following corrective adjustments to the internal use software (IUS) balance:

- USCIS recorded prior year adjustments to IUS of \$30.1 million.
- USCIS identified ten new IUS projects for which costs were previously recorded as expenses. Three of the ten projects were initiated in prior years.

During testwork over the Office of Transportation Coordination projects as of June 30, 2012 and September 30, 2012, we noted that USCIS incorrectly capitalized Electronic Immigration System training and data conversion costs.

During testwork over a sample of Office of the Chief Information Officer project costs as of September 30, 2012, we noted the following:

- USCIS incorrectly capitalized Office of the Chief Information Officer training and maintenance costs.
- USCIS was unable to provide supporting documentation for capitalized costs.

Recommendation:

We recommend that the USCIS OCFO, Office of Transformation Coordination, Office of Information Technology, USCIS Contracting and other involved program offices continue to work together to develop and implement effective policies and procedures to ensure the accurate and timely identification and reporting of software developments cost.

USCIS – FMC 12-10 – Deficiencies in the Timely Recording of Capital Equipment (NFR No. USCIS 12-10)

We reviewed the PP&E activity recorded to the GL during FY 2012 and noted that USCIS recorded prior period equipment costs as additions for 46 items in the current year.

In addition, we selected a statistical sample of PP&E transactions related to asset additions and disposals, and noted the following:

- USCIS disposed of equipment in the second quarter of FY 2011 but did not record the transaction in the GL until the second quarter of FY 2012.
- USCIS was unable to provide supporting documentation for two capitalized equipment additions.

Department of Homeland Security
Financial Management Comments
September 30, 2012

Recommendations:

We recommend that the USCIS:

- The OCFO, Office of Administration, OIT, and USCIS Contracting continue to work together to develop and implement effective policies and procedures that ensure PP&E acquisitions are processed in a standardized method.
- Roles and responsibilities for ordering, purchasing, delivery, receiving, and establishing accountability should be addressed.
- Additionally, these procedures should ensure the responsible offices provide accurate documentation to the appropriate personnel for timely and accurate data entry into the asset management system and financial management system.

Department of Homeland Security
Financial Management Comments
September 30, 2012

VI. IMMIGRATION AND CUSTOMS ENFORCEMENT (ICE)

ICE – FMC 12-01 – Inadequate Controls over New Hire Ethics Briefings (NFR No. ICE 12-01)

The ICE Ethics Office is charged with the oversight of ethics training for all ICE employees. ICE new hires are required to complete new hire ethics training within 90 days of their Entrance on Duty date. This training is delivered online through ICE's Virtual University training system.

During our testwork over new hire ethics training, we noted that five out of a sample of 45 ICE employees hired between October 1, 2011, and June 30, 2012, did not complete the required ethics training within 90 days of their Entrance on Duty date.

Recommendation:

We recommend that the ICE Ethics Office continue to use email reminders and the escalation procedures that were put into place in February 2012; whereby, the Chiefs of Staff in the offices of employees who have yet to complete the training are notified.

ICE – FMC 12-02 – Student Exchange Visitor Information System Data not Reconciled to FFMS Data (NFR No. ICE 12-02)

ICE collects fees from applicants for the Student Exchange Visitor Program pursuant to the Illegal Immigration Reform and Immigrant Responsibility Act of 1996 (Public Law 104-208). ICE records revenue in FFMS – the financial system – for the transactions, and maintains applicant and visitor information in the Student Exchange Visitor Information System. Student Exchange Visitor Information System does not interface with FFMS.

Prior to May 2012, policies and procedures were not in place at ICE to reconcile cash collections for Student Exchange Visitor Program to the corresponding applicant information in Student Exchange Visitor Information System.

Recommendation:

We recommend that ICE continue to use the reconciliation process that was implemented in May 2012. Beginning in May 2012, the ICE OFM and the Burlington Finance Center began to perform reconciliation between the FFMS and the I-901 Fee Collection System at the detail level. The reconciliation performed at the Burlington Finance Center is a part of the three-way match between the Fee Collection System, the Student and Exchange Visitor Information System, and FFMS and gives the ability to drill down from a deposit recorded in FFMS to the actual student information housed in the Student and Exchange Visitor Information System. The Burlington Finance Center has the ability to perform this reconciliation daily and consolidates at the end of the month for Management's sign-off.

Department of Homeland Security
Financial Management Comments
September 30, 2012

ICE – FMC 12-03 – GAO Checklist Review (NFR No. ICE 12-07)

We noted that the GAO checklist review was not performed accurately as of March 3, 2012. Specifically, we noted:

- Four instances where ICE OFM indicated “Yes” for the existence of information in the financial statements when the balance or information is not reported or applicable to the Annual Financial Report.

One instance where ICE indicated “N/A” for information in the financial statements when ICE’s operations support the reporting of certain balances.

Recommendation:

We recommend that ICE improve procedures to ensure that the GAO checklist is an effective control to assess the accuracy of accounting policies.

ICE – FMC 12-04 – Untimely Review of OGE Form 450s (NFR No. ICE 12-08)

We noted during interim testwork over entity level controls at ICE that 32 out of 45 OGE Form 450s selected for testwork were certified by the ethics official greater than 60 days after the submission of the form. These forms were all reviewed by a supervisor within 60 days; however the supervisors do not represent “designees” of the ethics official for the purpose of certifying the form. All forms were certified by the Ethics Office subsequent to the 60 day window.

Recommendation:

We recommend that the ICE Ethics Office make the supervisory reviewers “designees” for the purpose of certification in order to comply with the OGE requirements, or apply additional resources so that the ethics officials review the forms on-time.

ICE – FMC 12-05 – Ineffective Internal Controls over Leave Audit Process (NFR No. ICE 12-09)

During the review of the corrective action plan of the prior-year finding related to leave audits, we noted that 1,118 Annual Leave Errors from the Period 8 Report had not been resolved by the Period 13 Report, ten weeks later.

ICE’s Office of Human Capital implemented a new process as of July 2012 to reconcile the leave amounts recorded in WEBTA to leave amounts reported by NFC. We noted that following the introduction of this new process, leave errors decreased to 185.

Recommendations:

We recommend that the ICE Office of Human Capital:

- Ensure that all employees responsible for timekeeping are appropriately trained in all aspects of the time and attendance system.
- Analyze leave error reports to identify any common causes related to errors in the timekeeping process.
- Continue to review and report to program offices on timekeeping errors to ensure correction no later than two pay periods from the date of official notification.

Department of Homeland Security
Financial Management Comments
 September 30, 2012

- Develop new quick reference guidance to supplement the currently used guidance which will educate timekeepers on the newly implemented bi-directional feed process and reinforce the actions required in the leave audit process.
- Implement the “Timekeeping and Attendance Directive” that establishes responsibilities for all managers, supervisors and employees involved in the timekeeping process and sets internal controls for leave errors.

ICE – FMC 12-06 – FFMS to PRISM Reconciliation (NFR No. ICE 12-10)

We noted during our tests of design and implementation of the reconciliation of FFMS and PRISM that policies and procedures are in place for the reconciliation, however ICE has not adequately documented the remediation of variances at the document number level identified during the reconciliation. Additionally, there was a lack of supervisory review of the reconciliation.

Recommendations:

We recommend that ICE:

- Develop and implement a supervisory review and approval process for the reconciliation.
- Develop and implement a process for retaining documentation from the reconciliation that shows the resolution for reconciling items at the document level.

ICE – FMC 12-07 – Subject to Availability of Funding Agreements not Obligated in FFMS at Outset of Agreement (NFR No. ICE 12-11)

Enforcement and Removal Operations does not record a dollar value for obligations in FFMS for Enforcement and Removal Operations agreements including the “Subject to Availability of Funds” (SAF) clause prior to incurring cost under these. Enforcement and Removal Operations occasionally incurs Prompt Payment Interest because of the timing lag between when it receives an invoice and when it has the funds available in FFMS to pay the invoice.

We inquired of ICE about remediation action that had occurred to address prior year NFR ICE-11-16. According to ICE, the Budget and Program Performance (OBPP) has implemented guidelines to reduce reliance on the SAF clause in ERO agreements.

Recommendations:

We recommend that ICE:

- Continue to implement the guidance issued by OBPP in August 2012 to Program Offices regarding the proper use of the SAF clause.
- Fund detention bed contracts in a manner such that the use of the SAF clause is not required at the start of the fiscal year.
- Continue the coordinated multi-office review of obligations that are not recorded in a timely manner.
- Structure the period of performances in ERO agreements so that they are staggered throughout the year in order to reduce reliance on the SAF clause.
- Continue to use the revised procedures implemented by the Office of Acquisitions to ensure that task order periods of performances do not exceed the funding level on the individual task orders.

ICE – FMC 12-08 – Accounts Payable Estimation Methodology does not Contain Procedures for Considering Improvements to the Methodology (NFR No. ICE 12-17)

During FY 2012, we noted that ICE OFM was limiting the accounts payable estimate in certain BOCs and program codes to the total amounts that were obligated in those specific combinations. This limitation reduces the estimate amount without consideration for whether the reduction is necessary or meaningful to the estimate on the whole.

Recommendation:

We recommend that ICE OFM further refine the accrual process to determine and record an accrual for the highest allowable attribute posting in FFMS so that an adequate accounts payable accrual is recorded each month.

ICE – FMC 12-09 – Inadequate Policies and Procedures for PP&E Accruals (NFR No. ICE 12-21)

In a sample of three real property additions, KPMG noted that one accrual was calculated using an outdated obligation amount. Per review of obligating documents, KPMG determined that the original obligation amount had been amended in August 2012 to reduce the obligation. However, OFM calculated and recorded the year-end accrual for the project using the original obligation amount.

Recommendation:

We recommend that:

- All pertinent ICE offices should collaborate to ensure precise accruals are recorded in the financial system by improving the collection and validation of data.
- ICE train stakeholders to validate the data at each stage within the process in order to reduce the risk of anomalies.

VII. INTELLIGENCE & ANALYSIS (I&A) AND OPERATIONS (OPS) (MGA)**MGA – FMC 12-01 – UDO Validity (NFR No. MGA 12-01)**

We selected a statistical sample of 17 items from the population of UDOs as of October 1, 2011. Based on our review of these items, we noted that for 5 of the 17 UDOs tested, the contract/agreement POP had ended and the contract/agreement was no longer valid; however, the unused balances for these items were not properly de-obligated. Additionally, we noted that for 1 of the 17 UDOs tested, the amount of the original obligation recorded was less than the supporting documentation, resulting in an understatement of the UDO balance.

We selected a statistical sample of 12 items from the population of UDOs as of August 31, 2012. Based on our review of these items, we noted that for 4 of 12 UDOs tested, the contract/agreement POP had ended and the contract/agreement was no longer valid; however, the unused balances were not properly de-obligated.

As a result of the August 31, 2012 errors, we performed testwork over UDOs as of September 30, 2012. We obtained the population of UDOs as of September 30, 2012, and based on the noted GL date, separated the population into stale (no FY 2012 activity) and non-stale (with FY 2012 activity) UDOs. We removed the errors identified in our beginning balance testwork and August 31, 2012 testwork, and selected a statistical sample of 28 items. Based on our review of these items, we noted that for 12 of 28 UDOs tested, the contract/agreement POP had ended and the contract/agreement was no longer valid; however, the unused balances were not properly de-obligated.

As a result of the September 30, 2012 errors, we removed all items selected in our September 30, 2012 sample from the population of stale UDOs and provided this to MGA to clean-up for re-testing. MGA reviewed the population and determined which UDOs they considered valid and which were invalid. We selected a statistical sample of 3 items from the population of stale UDOs I&A considers valid and a statistical sample of 3 items from the population of stale UDOs OPS considers valid. Based on our review of these items, we noted for 2 of the 3 UDOs tested for I&A, the contract/agreement POP had ended and the contract/agreement was no longer valid; however, the unused balances were not properly de-obligated. We noted all 3 UDOs tested for OPS were valid.

Recommendations:

We recommend that MGA:

- Work with FLETC and the Office of Procurement Operations to ensure that an adequate review of obligated balances is performed and that unused balances are properly de-obligated.
- Work with FLETC and Office of Procurement Operations to enhance the existing system of monitoring contracts with periods of performance that are set to expire.

Department of Homeland Security
Financial Management Comments
September 30, 2012

MGA – FMC 12-02 – Deficiencies in the Payroll Process (NFR No. MGA 12-03)

During our payroll testwork, we identified three employees for which the MGA's servicing human capital office, the DHS Office of Human Capital Officer, was unable to find the adequate documentation (FEGLI and FEHB election forms) and in two of those instances we were unable to re-calculate their benefit contribution amounts.

Recommendation:

We recommend that MGA coordinate with Office of Human Capital Officer, in maintaining documentation for each employee in order to be able to obtain the documentation upon request and to verify changes made to FEGLI and FEHB elections are properly documented and agreed to the employee's SF-50.

Department of Homeland Security
Financial Management Comments
September 30, 2012

VIII. MANAGEMENT DIRECTORATE (MGT)

MGT – FMC 12-01 – Inadequate Internal Controls over PP&E (*NFR No. MGT 12-01*)

During FY 2012, the Management Directorate was in the process of implementing an asset management system with robust processes and controls. As such, MGT continues to rely on manual processes to track and report PP&E. Although MGT has piloted inventory procedures at program offices, it did not have procedures in place for a comprehensive inventory in FY 2012.

During interim testwork over PP&E, we noted that:

- One FY 2012 real property addition included capitalized costs from FY 2011.
- One personal property addition did not properly include all capitalized costs, which resulted in an understatement of capitalized assets. For the same item, the invoices to support the addition included non-capitalized technical support costs, which resulted in an overstatement of capitalized assets.
- One personal property item was capitalized in FY 2012, but receiving tickets showed the property was received in FY 2011.

Recommendations:

We recommend that MGT:

- Design, implement, and document additional policies, procedures, and internal controls that will help ensure the PP&E recorded in the asset management system exists, that it is complete and accurate, and that it is properly valued.
- Provide Sunflower Asset Management System (SAMS) training to the property management custodians.

IX. NATIONAL PROTECTION AND PROGRAMS DIRECTORATE (NPPD)

NPPD – FMC 12-01 – Inadequate PRISM to FFMS Reconciliation (NFR No. NPPD 12-01)

NPPD uses PRISM – a procurement module outside of FFMS – to initiate obligations. Since PRISM does not interface with the GL system, FFMS, NPPD financial management personnel manually record obligations from PRISM into FFMS.

During our test of design and implementation of NPPD's FFMS to PRISM reconciliation, we noted that policies and procedures are in place for the reconciliation process; however NPPD did not perform the reconciliation with a regular frequency during FY 2012. As of the date of our walkthrough with NPPD on July 19, 2012, the FFMS to PRISM reconciliation was last performed in January 2012.

Recommendation:

We recommend that NPPD perform the FFMS to PRISM reconciliation with regular frequency.

NPPD – FMC 12-02 – Federal Protective Services (FPS) Accounts Receivable Allowance (NFR No. NPPD 12-03)

FPS is responsible for security of government facilities. Through different methods, FPS bills customers every month for their portion of the security cost. When a payment is not received, an accounts receivable balance is recorded in the GL and a review takes place to identify and attempt to collect on these charges.

During our walkthrough over the March 31, 2012, accounts receivable review process, we noted the following:

- Approximately 25 percent of the FPS Accounts Receivable balance, primarily Federal, was over 180 days uncollected.
- Open accounts receivable balances ranged from 1 day to 2,298 days uncollected.
- FPS does not have policies and procedures in place to identify, review, and resolve uncollected amounts related to Federal accounts receivable.

Recommendation:

We recommend that NPPD implement policies and procedures to identify, review, and resolve uncollected amounts related to Federal accounts receivable.

NPPD – FMC 12-03 –UCOs Not Recorded for Recurring Security Agreements (NFR No. NPPD 12-05)

NPPD FPS does not record UCOs for recurring agreements because these types of agreements are performed within the span of the fiscal year (i.e. annual agreements) and are billed on a 1/12th basis whereby 1/12th of the total agreement amount is billed each month.

Recommendation:

We recommend that NPPD record and track unfilled customer orders for all security work agreements.

Department of Homeland Security
Financial Management Comments
September 30, 2012

NPPD – FMC 12-04 – FPS Headquarters Security Billing Review (NFR No. NPPD 12-06)

During our walkthrough over the review of the FPS headquarters security billings file, we noted that the current review process is not properly designed to identify and correct misstatements of inaccurate billings.

During our testwork over a sample of 19 security revenue transactions, we identified five exceptions. Five FY 2012 sample amounts contained transactions related to FY 2011 revenue adjustments. While preparing and reviewing the monthly security charges, these amounts were not properly excluded from FY 2012 revenue. Specifically, three of the five sample amounts related to an increase in revenue, while the other two sample amounts related to a decrease in revenue.

Recommendation:

We recommend that NPPD FPS strengthen its current procedures or develop and implement new procedures to apply billing adjustments to revenue balances in the proper period.

NPPD – FMC 12-05 – Untimely De-obligation of UDO balances (NFR No. NPPD 12-07)

NPPD lacks effective controls over the verification and validation of UDOs which resulted in substantive errors. The verification and validation reviews performed by the financial managers indicate reliance on responses from field office personnel to determine the validity of open obligations which at times are inaccurate, do not indicate a rigorous review of the open obligations, or do not contain sufficient information for the financial managers to make an informed decision about the balance.

We selected a statistical sample of 40 items from the population of UDOs as of September 30, 2012. Based on our review, we noted that for 3 of the 40 UDOs tested, the contract/agreement POP had ended and the contract/agreement was no longer valid; however, the unused balances had not been properly de-obligated.

Recommendations:

We recommend that NPPD:

- Strengthen its verification and validation review of UDOs to adequately consider whether balances should be de-obligated.
- Improve communication between financial management and field office personnel during the review so that the final determination for each UDO balance is clearly documented.

NPPD – FMC 12-06 – Accounts Payable Estimate Methodology (NFR No. NPPD 12-12)

NPPD's accounts payable estimation review – as performed by its service provider, ICE OFM – is not designed effectively to ensure that the estimate is accurately recorded. Specifically, we noted during FY 2012 that ICE OFM was limiting the accounts payable estimate in certain BOCs and Program Codes to the total amounts that were obligated according to the obligation balances in those specific combinations. This limitation reduces the estimate amount without consideration for whether the reduction is necessary or meaningful to the estimate on the whole.

Department of Homeland Security
Financial Management Comments
September 30, 2012

Recommendation:

We recommend that NPPD and ICE OFM further refine the accrual process to determine and accrue-for the highest allowable attribute posting in FFMS so that an adequate accounts payable accrual is recorded each month.

Department of Homeland Security
Financial Management Comments
September 30, 2012

X. OFFICE OF HEALTH AFFAIRS (OHA)

OHA – FMC 12-01 – Bioshield Accounts Payable Accrual (NFR No. OHA 12-01)

OHA records obligations (in the amount of funds to be transferred to Health and Human Services (HHS) and disbursements (in the amount of the payments made by HHS to vendors) in its own financial statements. At the end of each month, OHA records an accrual to cover the portion of expenses incurred by HHS that have not yet been recorded against the BioShield obligation by OHA.

However, OHA did not have controls in place throughout FY 2012 to link expenses (i.e., HHS IPACs) to the BioShield obligation in an accurate and timely manner. In addition, we noted that the FY 2011 accrual was overstated, resulting in an understatement of current year expenses.

Recommendations:

We recommend that OHA:

- Continue to utilize the revised spreadsheet to calculate the BioShield accrual, which will streamline the overall process and reduce the amount of manual data input.
- Continue to reconcile the detailed data provided by HHS to the amounts obligated in OHA's financial system on a monthly basis.

OHA – FMC 12-02 – Contract Management (NFR No. OHA 12-02)

OHA's review of outstanding UDO balances is not operating effectively to ensure obligations are properly modified, extended or de-obligated timely. Specifically we noted one BioShield contract selected for testwork, which was approximately \$143,926,000, had an expired POP.

Recommendation:

We recommend that OHA review the POP for obligations to ensure the POP is properly updated and/or modified as needed.

XI. SCIENCE AND TECHNOLOGY DIRECTORATE (S&T)

S&T – FMC 12-01 – FFMS to PRISM Reconciliation (NFR No. S&T 12-01)

S&T uses PRISM – a procurement module outside of FFMS – to initiate obligations. Since PRISM does not interface with the GL system, FFMS, S&T financial management personnel manually record obligations from PRISM into FFMS. As a result, there is a risk that obligations initiated in PRISM are not completely or accurately recorded in FFMS.

S&T does not have policies and procedures in place to reconcile obligation information from PRISM to FFMS.

Recommendation:

We recommend that S&T develop and implement policies and procedures to reconcile obligation data between FFMS and PRISM.

S&T – FMC 12-02 – Inadequate Controls and Procedures over Recording and Reporting Personal Property (NFR No. S&T 12-02)

S&T oversees six national research laboratories and contracts with outside entities to manage certain functions of the laboratories. Contractors purchase laboratory equipment and are reimbursed by S&T for the expense. S&T reports the equipment as PP&E based on its capitalization requirements.

During the walkthrough of the S&T property process, we noted that there is a lack of supervisory review controls to verify the accuracy of the information that is recorded into SAMS. S&T performs occasional inspections, but there is no consistent review of information at the point at which it is recorded into SAMS.

During interim audit procedures over personal property, we noted that S&T recorded the addition of an item of scientific equipment in FY 2012 that was received in FY 2011. The equipment had been purchased by the contractor for National Biodefense Analysis and Countermeasures Center, who was subsequently reimbursed by S&T.

Recommendation:

We recommend that S&T develop and implement internal controls to identify and record additions to PP&E in a timely manner and that the procedures include consideration for S&T assets purchased or held by contractors.

S&T – FMC 12-03 – Inadequate Internal Controls over Reporting of Construction In Progress (CIP) and Buildings (NFR No. S&T 12-03)

S&T's Office of National Laboratories contracts with FLETC to construct buildings, structures and leasehold improvements. Invoices are submitted along with a summary checklist which certifies that (1) only capitalizable PP&E costs have been captured, (2) contract identification numbers have been provided, (3) supporting documentation such as invoices have been provided or maintained for audit and review, (4) both direct and indirect PP&E costs have been captured for the quarter, (5) contract modifications have been included, and (6) S&T asset management

Department of Homeland Security
Financial Management Comments
 September 30, 2012

personnel have been informed of any contract close-outs. The checklist is prepared by the project manager and reviewed by S&T asset management personnel and S&T Financial Operations. ICE OFM provides financial reporting services for S&T and records S&T's asset additions.

During testwork over a sample of eight real property additions as of June 30, 2012, for all sample items, we noted that the CIP checklist was not reviewed and approved by all required supervisors until after the addition was recorded into GL by ICE OFM.

Recommendation:

We recommend that S&T strengthen its internal controls to identify and record additions to construction in progress and buildings. We recommend that S&T consistently use the CIP checklist to track and record construction costs and that the supervisory review of the checklist occurs before entry into the GL.

S&T – FMC 12-04 – Inadequate Documentation of Inventory Procedures (NFR No. S&T 12-04)

S&T performs an annual inventory of all capitalizable and accountable personal property. S&T Office of the Chief Administrative Officer is responsible for issuing guidance related to the annual inventory and monitoring and reporting the results. Property custodians are responsible for the day-to-day accountability for assets and, in order to ensure segregation of duties, are prohibited from performing the inventory for assets for which they are responsible.

We reviewed seven inventory certification letters for S&T and noted that the documentation provided for five sites was not adequate to determine if there was segregation of duties as required by the DHS Personal Property Asset Management Manual.

Recommendation:

We recommend that S&T implement policies and procedures to enforce and document adequate segregation of duties during the annual inventory.

S&T – FMC 12-05 – Inadequate UCO Review (NFR No. S&T 12-05)

During our testwork over the September 30, 2012 UCO balances, we selected 15 open balances and noted the following:

- One sample item was a duplicate agreement for \$4.8 million that was input into FFMS in May 2012 and not identified to be removed until after September 30, 2012.
- One sample item was a reimbursable agreement in which the customer agency provided S&T with two year funds (09/10). At the end of FY 2012, the carryover balance was not properly reduced, and as a result, the amount obligated on the corresponding UDO exceeded the UCO.

Recommendations:

We recommend that S&T:

- Strengthen its quarterly UCO review procedures to adequately review and adjust UCO balances with customer agencies.
- Improve communication between financial management and field office personnel so that the conclusions about each balance are clearly documented.

Department of Homeland Security
Financial Management Comments
September 30, 2012

S&T – FMC 12-06 – Inadequate Policies and Procedures for Identifying Heritage Assets (NFR No. S&T 12-06)

We determined that controls are not properly designed to identify and report heritage assets.

Recommendations:

We recommend that S&T:

- Strengthen its policies and procedures related to the review for heritage assets.
- Improve communication between financial managers and field office personnel to timely identify and report heritage assets

XII. TRANSPORTATION SECURITY ADMINISTRATION (TSA)

TSA – FMC 12-01 – Asset Exchanges (*NFR No. TSA 12-01*)

TSA lacks formalized documented policies and procedures to ensure that property exchanges maximize value to the government and conform to the appropriate property management laws, regulations, and policies. Exchanges of goods for services are generally not allowable under the property management regulations. Specifically, we noted policies do not exist to:

- Require the review and approval of the Property Management Division (PMD) for any future exchange sales and property disposals.
- Require senior executive leadership within the Office of Acquisitions and the owning organization to review and approve the business case for the exchange of equipment or other non-cash transactions.
- Require PMD to communicate the requirements and policy for exchange sales to all TSA organizations and contracting professionals with the Office of Acquisitions.

Recommendations:

We recommend TSA to take the following corrective actions:

- Require leadership within the Office of Acquisitions and the owning organization to review the business case for the exchange sale for any contract that involves the exchange of equipment.
- The Office of Acquisitions and PMD develop process to identify exchange sale for surveillance and reporting.
- PMD update the Personal Property Management Manual and include exchange sale transaction guidance.
- PMD communicate the requirements and policy for exchange sales to all TSA organizations and contracting professionals with the Office of Acquisitions.
- The Office of Acquisitions issue a data call to all COs to determine if other similar exchange sales were processed in FY 2011 and FY 2012. Review and verify that any exchange sales that were processed were properly recorded and reported.
- Financial Management Division provide acquisition cost, net book value, and remaining useful life for assets identified for exchange sale and record the appropriate accounting entry to remove the assets from TSA's ledger.

TSA – FMC 12-02 – Non-Compliance with the *Debt Collection Improvement Act of 1996 (DCIA)* (*NFR No. TSA 12-04*)

In FY 2011, TSA was not in compliance with DCIA. During FY 2011, TSA revised its internal SOP over ensuring compliance with DCIA. Although this SOP has been adopted and approved, the SOP is not properly designed to ensure full compliance with the provisions of DCIA for FY 2012. The SOP indicates that referrals are only made on a quarterly basis. We further note that the policy lacks adequate management review controls over the accounts receivable payments database to verify completeness over fees identified as outstanding and eligible for referral.

Specifically we noted the following instances of non-compliance:

- For 3 of 59 sample items selected, demand letters were not sent to the debtor timely.

Department of Homeland Security
Financial Management Comments
 September 30, 2012

- For 5 of 59 sample items selected, TSA did not refer eligible, outstanding debt to Treasury within 180 days.

Recommendations:

We recommend that TSA's:

- Accounting and Revenue review and edit the SOP to indicate that Passenger Fee and Air Carrier Fee referrals to Treasury be conducted on a monthly basis by the Office of Revenue to ensure that the SOP is properly designed to ensure full compliance with the Federal collection guidelines.
- Accounting and Revenue review and edit the SOP to document management controls over establishment of Passenger Fee and Air Carrier Fee accounts receivable to review and verify completeness over fees identified as outstanding.

TSA – FMC 12-03 – Revenue Fee Classification (NFR No. TSA 12 -05)

During our testwork over revenue, we noted TSA lacks preventative controls to ensure all aviation fees are timely classified to the correct fee type – Aviation Security Infrastructure Fees (i.e. Carrier Fees) or September 11th Security Fees (Passenger Fees) at the time of initial deposit.

Specifically, we noted three instances in which TSA made corrections, in the subsequent quarter, to the March daily deposit report to reclassify two fees from passenger to carrier and one fee from carrier to passenger.

Recommendations:

We recommend that TSA's:

- Revenue Division continue to execute the series of existing controls already in place to identify the correct classification revenue.
- Revenue Division continue with communication, education, and industry outreach to all aviation customers to further emphasize the importance of continually providing proper remittance advice.
- Financial Management Division Accounting Branch review the fee classification recorded via JV (accounts receivable accrual and collections in-transit).

TSA – FMC 12-04 – Review of Journal Vouchers (NFR No. TSA 12-06)

Controls related to journal voucher (JV) reviews were not fully effective during the current year. Specifically we noted:

- One sample item that was recorded for the incorrect amount.
- One sample item that was recorded to correct an entry that was reviewed, approved, and posted in error in a prior month.

Recommendations:

We recommend TSA:

- Ensure that JV Preparers and Reviewers take the yearly JV Training which will include JV preparation, lessons learned and the requirements for review and approval.
- Branch Chiefs train their staff on all applicable accounting standards and procedures for their areas of responsibility.

TSA – FMC 12-05 – Employee Record Management and Compliance with Human Resources Related Laws (NFR No. TSA 12-07)

TSA lacks documented policies and procedures related to the review and maintenance of employee personnel folders to ensure completeness and accuracy of employee benefit election documentation and processing. In addition, ensure that employee benefits are properly supported by available documentation within the employee personnel files.

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

- Two instances in which the SF-2817 (FEGLI) form was not included in the employee personnel folders.
- One instance in which the FEGLI elections per the Leave and Earnings Statement did not agree to the coverage elections selected by the employee per the SF-2817 (FEGLI) form.
- One instance in which the SF-2809 (FEHB) form evidencing the employee's current benefits election was not included in the employee personnel folders.
- One instance in which the current TSP election form was not included in the employee personnel folders.

Recommendation:

We recommend TSA continue to monitor the service provider to verify that all of the supporting documentation for benefit and TSP elections are uploaded into the Official Personnel Folder in a timely manner for both new hires and employee changes. This ongoing review will ensure the service provider is following the Federal guidelines pertaining to record keeping.

TSA – FMC 12-06 – Ineffective Controls over the Time and Attendance Process (NFR No. TSA 12-09)

Airports (5 Sites)

During our FY 2012 site visits to airports, we noted that controls over time and attendance were not fully effective at the airports. We noted the following:

- Controls over the review and approval of timesheets are not operating effectively. Specifically, we noted:
 - Lack of evidence of timely supervisor review and approval of timesheets and additional supporting documentation (nine instances):
 - Five of 59 instances where overtime requests were not approved prior to the employee working the overtime hours
 - Two of 59 instances where employee sick leave approval was not properly evidenced.
 - One of 59 instances where leave was taken prior to supervisor approval.
 - One of 59 instances where the employee was paid for 0.5 hours of unauthorized time worked.
- Lack of policies and procedures to ensure consistent application of time and attendance review requirements at airports utilizing the Electronic Time and Attendance System.
- Lack of policies and procedures to ensure completeness of listing of employees by airport. We noted two instances where employees charged time to WebTA in pay period 06, but were not included in the listing of employees provided to the auditors for pay period 06. We note

Department of Homeland Security
Financial Management Comments
 September 30, 2012

that we were able to trace the employees to the population of payroll expense to ensure they were properly included.

Federal Air Marshall Service (5 Sites)

During our FY 2012 site visits to airports, we noted that controls over the review and approval of timesheets are not operating effectively. Specifically, we noted:

- Lack of evidence of timely supervisor review and approval of timesheets and additional supporting documentation (eleven instances)
 - Two of 62 instances where the timecard was not approved until the following pay period.
 - Eight of 62 instances where leave was taken prior to supervisor approval.
 - One of 62 instances where employee sick leave form was not approved timely.
- Lack of evidence of supervisor review and approval of timesheet and additional supporting documentation (one instance):
 - One of 62 instances where the employee's timesheet was not reviewed and approved by the appropriate supervisor.

Recommendations:

We recommend that TSA:

- Continue to provide training, focusing awareness on maintaining effective controls over time and attendance processes. Training should continue to be accomplished through initial training of personnel assigned to time and attendance duties as well as refresher training for those performing these duties.
- Federal Air Marshall Service Regional Directors within the Office of Field Operations should be responsible for validating and certifying all field office K-Band (TSA pay scale) and Transportation Senior Executive Service SAC time and attendance forms effective immediately.
- Develop and implement policies and procedures for the use of Electronic Time and Attendance System, specifically addressing user roles and proper approval of leave and overtime using reports available from the system, i.e., the exception report.

TSA – FMC 12-07 – PP&E Site Visits (NFR No. TSA 12-10)

During our FY 2012 site visits, we noted the following:

Airport Site Visits

During our FY 2012 site visits to airports, we noted that controls over PP&E were not fully effective at the airports. Specifically, we noted that controls in place did not properly ensure:

- The serial number per the asset agrees to SAMS. KPMG noted one instance where the TSA serial number per the asset did not agree to the SAMS record.
- The TSA ID (barcode) per the asset agrees to SAMS. KPMG noted four instances where the TSA ID per the asset barcode did not agree to the asset records per SAMS.
- The asset location agrees to that listed in SAMS. KPMG noted five instances where the actual location did not agree to the location recorded in SAMS.

Department of Homeland Security
Financial Management Comments
 September 30, 2012

- Assets not owned by TSA were properly segregated from the inventory scan and excluded from SAMS. KPMG noted 2 instances where the asset was leased with GSA but was improperly included in SAMS and in the inventory scan report.

Federal Air Marshall Service Site Visits

During our FY 2012 site visits to airports, we noted that controls over property, plant and equipment were not fully effective at the Federal Air Marshall Service field offices. Specifically, we noted that controls in place did not properly ensure:

- The serial number per the asset agrees to SAMS. KPMG noted five instances where the TSA serial number per the asset did not agree to the SAMS record.
- The TSA ID (barcode) per the asset agrees to SAMS. KPMG noted one instance where the TSA ID per the asset barcode did not agree to the asset records per SAMS.
- All TSA owned equipment is properly tagged with a TSA barcode. KPMG noted one instance where TSA owned equipment was not tagged with a barcode.
- The asset location agrees to that listed in SAMS. KPMG noted three instances where the actual location did not agree to the location recorded in SAMS.

TSA Logistics Center Dallas Warehouse

During our FY 2012 visit to the TSA Logistics Center, we noted that controls over property, plant and equipment were not fully effective at the TSA Logistics Center. Specifically, we noted that controls in place did not properly ensure:

- The serial number per the asset agrees to SAMS. KPMG noted one instance where the TSA serial number per the asset did not agree to the SAMS record.
- SAMS is updated timely to reflect inventory results. KPMG noted six instances where assets scanned as a part of the inventory count were not included in the reconciled TSA Logistics Center SAMS balance as of September 14, 2012.

Recommendations:

We recommend TSA:

- PMD continue communication and outreach with Accountability Property Officers and Property Custodians to address property management processes, procedures, and updates.
- PMD provide training and ongoing guidance to Program Managers, Accountability Property Officers, Property Custodians, and Vehicle Custodians as needed.
- PMD ensure that Office of Law Enforcement/Federal Air Marshall Service program offices and locations have access to TSA property management policies, procedures and guidance to ensure compliance in adhering to our processes.
- PMD work with all program offices and field offices to ensure TSA owned vehicles are recorded in SAMS with the correct cost, bar code, serial number, and location.
- Open transfer metrics continue to be reported on a monthly basis for monitoring. The detailed list of open transfers will be provided to the offices responsible for closing the transfers for appropriate action.
- PMD, the Financial Management Division, and Office of Security Capabilities will ensure the SAMS extract used to perform the final TSA Logistics Center inventory reconciliation is not generated until the final shipment of the day is received at the TSA Logistics Center.

Department of Homeland Security
Financial Management Comments
September 30, 2012

TSA – FMC 12-08 – PP&E Controls (NFR No. TSA 12-11)

During our testwork over FY 2012 PP&E activity, we noted the following:

Asset Additions

- Existing controls are not operating effectively to ensure asset addition values are supported with sufficient, appropriate documentation before addition into the Fixed Asset Module. Specifically, we noted one vehicle was undercapitalized.
- Existing controls are not operating effectively to ensure asset additions are processed timely into the Fixed Assets Module. Specifically, we noted one asset was not approved for addition into the Fixed Assets Module until two months after it appeared as a roll-forward addition.

Asset Retirements

- Existing controls are not operating effectively to ensure asset retirements are supported by sufficient and appropriate documentation. Specifically, we noted one asset was identified as damaged but was improperly recorded as a deletion and had to be subsequently reinstated.
- Existing controls are not operating effectively to ensure assets are disposed of timely. Specifically, we noted two assets were not disposed timely based on review of the supporting documentation.
- Existing controls are not operating effectively to ensure gain/loss is correctly recorded upon asset retirement. Specifically, we noted two instances where the loss recorded for two asset retirements was overstated.

Transportation Security Equipment (TSE) Roll-forward

- Controls are not designed appropriately to ensure review and approval by the Branch Chief is properly evidenced. Specifically, we noted per inspection of the March 31, 2012 equipment roll-forward, the Branch Chief's review was not evidenced.

Recommendations:

We recommend TSA:

Asset Additions

- PMD should implement policies and procedures to utilize invoices providing asset-level detail to record vehicle acquisition costs.
- PP&E Accounting Branch should continue to work with program offices to communicate supporting documentation requirements for capitalized assets.
- Expand existing Internal Control Branch review or create targeted review to address vehicle cost.

Asset Retirements

- PMD should implement quality review processes to validate asset status prior to disposal. PMD will also implement procedures to confirm asset disposals are processed timely with adequate supporting documentation attached to the asset record.
- P&E Accounting Branch should utilize policies and procedures to review asset disposals to verify disposal dates are correct per supporting documentation and the correct disposal date is utilized to calculate and record gain/loss amounts.

Department of Homeland Security
Financial Management Comments
 September 30, 2012

TSE Roll-forward

- PP&E Accounting Branch Chief or designee should review and approve of the monthly Transportation Security Equipment roll-forward. Document evidence of approval via signature and date on the roll-forward.

TSA – FMC 12-09 – Completeness of Heritage Assets (NFR No. TSA 12-12)

TSA lacks policies and procedures to ensure the completeness of artifacts reviewed by the TSA Historian Project for consideration for classification as a heritage asset. Specifically, during our FY 2012 site visit at the Colorado Springs Operations Center on August 9, 2012, we noted a piece of steel beam from the World Trade Center. However, this artifact had not been considered for evaluation for classification as a heritage asset by the TSA Historian Project.

Recommendations:

We recommend that TSA:

- The TSA Historian Project Manager coordinate a data call to all airports and field offices requesting they identify all assets of potential historical significance for review by TSA Historian Project.
- Data call requirements be communicated on an annual basis by the PMD via newsletters and conference calls.

TSA – FMC 12-10 – Undelivered Orders Controls – Validation and Verification (NFR No. TSA 12-15)

TSA's policies and procedures are not designed effectively to ensure contract close out and liquidation of any remaining obligation balances is completed timely.

Specifically, during undelivered orders (UDO) verification and validation control testwork, we noted three instances in which the contract close out procedures and subsequent liquidation of the remaining funding was not completed timely.

Recommendations:

We recommend TSA:

- Develop new training classes for Program Offices (Financial Management Division and Office of Acquisitions partnership).
- Develop priority lists early each fiscal year to address UDOs which use lapsing and cancelling funds.

TSA – FMC 12-11 – Travel Authorization Approval (NFR No. TSA 12-17)

As a result of our testwork to ensure that travel authorizations and vouchers are properly approved, coded, and recorded into the FedTraveler System, KPMG noted controls over the travel authorizations were not operating effectively. Specifically, we noted:

- In three instances out of 21, travel authorizations were not approved prior to the start of the employee's travel, and there was no documentation indicating sufficient justification for why the travel was not approved *prior* to the employee's travel departure date.
- In two instances out of 21, the travel authorization approver did not appear to have proper authority to approve the authorization.

Department of Homeland Security
Financial Management Comments
September 30, 2012

Recommendations:

We recommend TSA:

- On a monthly basis, a report of travel authorizations approved after the travel start date be run and travelers and approvers will be notified of non-compliance and asked to amend the travel authorization to provide a justification explaining why the travel was approved after the fact. (The requirement that travel should be approved in advance of travel date is a requirement included in MD 1000.6.).
- By the 15th of each month, the list of authorized approvers be compared to the approvers of travel documents in the system during the same period; any exceptions should be researched.

TSA – FMC 12-12 – Intragovernmental Payment and Collection Review Controls and Suspense Clearing (NFR No. TSA 12-19)

In response to FY 2011 NFR TSA-11-14, TSA implemented a new process, effective April 1, 2012, to review IPAC transactions in order to properly clear these transactions from suspense. Under this new policy, all IPAC transactions are reviewed, validated, and approved by the appropriate TSA point of contact (CO or COTR) prior to being cleared from the suspense account and recorded as an expense. KPMG notes, however, as the control was not implemented until April 2012, we continue to note a control deficiency related to the lack of controls in place to evidence review of IPAC payments in FY 2012.

Recommendations:

We recommend that TSA:

- Financial Management Division continue to execute the IPAC approval process (fully implemented in August 1, 2012) in FY 2013.
- Establish reconciliation procedures to ensure that TSA is receiving the goods and services billed; to include large agreements such as with GSA.

Department of Homeland Security
Financial Management Comments
 September 30, 2012

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

USCG – FMC 12-01 – Fund Balance with Treasury (FBwT) Reconciliations (*NFR Nos. USCG 12-03 and USCG-12-03a*)

During our testwork over FBwT as of March 31, 2012, we identified the following conditions:

- The USCG did not properly research and resolve all differences identified during the monthly SF-224 reconciliation.
- The monthly Government-Wide Accounting/Central Accounting Reporting System (Financial Management Service 6653/4) reconciliation was performed subsequent to the submission of financial data to the Department, and reconciling items were not researched and resolved. The reconciliation did not result, therefore, in timely, fully-supported resolution of the differences identified.
- Regional finance center payment schedules initiated by USCG directing Treasury to issue checks or other payments were able to be altered by personnel in the systems group prior to transmission through mid-March 2012; at that time, USCG modified the system roles in the Core Account System to prevent unauthorized changes.

During our testwork over FBwT as of September 30, 2012, we identified the following condition:

- USCG did not properly research and resolve all differences between their SF-224 data and Treasury IPAC and regional finance center systems prior to submitting their SF-224 to Treasury.

Recommendations:

We recommend that the USCG:

- Investigate the effect of reporting on the SF-224 only what is recorded in the GL at the time of close.
- Continue to perform the detective controls including the management review and approval of cash differences.
- Ensure that the reports are prepared using the most current Treasury guidance.

USCG – FMC 12-02 – Expense Process (*NFR Nos. USCG 12-05 and 12-05a*)

During our evaluations covering FY 2012 expense transactions, we noted the following control deficiencies:

- USCG did not record Accounts Payable, Delivered Orders- Obligations Unpaid, and the relevant asset or expense account at the time goods or services were received. Rather, items were recorded as an Accounts Payable or Delivered Order when paid.
- USCG was unable to provide documentation to evidence that the required approval of payment was obtained prior to the transfer of funds for all IPAC transactions. Further, USCG was unable to provide documentation of when goods/services were received.
- USCG was unable to provide documentation that all purchase orders were properly reviewed and approved by a CO.
- USCG was unable to provide purchase request forms to support all expense amounts.
- The Core Accounting System associated the incorrect trading partner identification numbers with some Federal vendors.

Department of Homeland Security
Financial Management Comments
 September 30, 2012

- USCG did not properly record liabilities for all GSA cancelable lease payables. Payables and obligations should be recorded for the minimum lease term until cancellation.
- USCG expensed more than the amount obligated for travel orders.
- USCG did not properly record expense transactions in all cases. Specifically, a cost incurred in FY 2011 was improperly recorded in FY 2012, and the object class was improperly recorded to the Core Accounting System.

As a result of the exceptions identified, through FY 2012 expense testwork, we noted total projected misstatements to Operating Expenses (USSGL Account 6100) of approximately \$20.6 million.

Recommendations:

We recommend that the Coast Guard:

- Perform work in FY 2013 to assess feasibility of implementing a receipting function in order to address the timing issues between delivery of goods and services and the recording of an accounts payable.
- Evaluate the IPAC process to refine procedures such that needed notification of receipt of goods and services are met.
- Revise current procedures related to procurement such that:
 - Necessary reviews are conducted and signatures are obtained for all purchase orders.
 - Approval is received prior to processing payments.
 - Purchase request forms are properly maintained to support expenses.
 - Payables and obligations of minimum lease terms until cancellation are properly recorded.
 - Adequate obligation amounts are required prior to expensing travel orders.
 - Consistent and adequate documentation of incorrectly posted expenses will be properly maintained to support reversals/adjustments.
 - Accounting transactions are properly selected to prevent recordation of liabilities for amounts already paid.
 - A monthly reclassification to correctly post benefits to SGL 6400 is performed.
 - Reconciliations to capture accurate expense activity in the Aviation Logistics Management Information System are performed.
- Document and implement a standardized policy to ensure that correct trading partner identification numbers are associated with the proper Federal vendors.
- Verify that procedures are performed as documented to ensure transactions are expenses in the proper period and recorded to the proper line of accounting.

USCG – FMC 12-03 – Accounts Receivable and DCIA Compliance (NFR No. USCG 12-11)

During our evaluation of Coast Guard’s internal controls and account balances for Cost Recovery Accounts Receivable related to the Oil Spill Liability Trust Fund, we noted the following:

- 11 of 58 National Pollution Fund Center receivable balances that were more than 180 days past due were not properly referred to Treasury as of March 31, 2012.
- National Pollution Fund Center was unable to provide support for ‘Unbilled Cost Recovery’ amounts used to calculate the Incurred but Not Reported amount as of March 31, 2012.
- The underlying data used to determine the amount of Unbilled Incurred but Not Reported for Deepwater Horizon was not complete and accurate as of March 31, 2012.

Department of Homeland Security
Financial Management Comments
 September 30, 2012

- National Pollution Fund Center did not review and approve rates applied to reserve amounts for Cost Recovery Accounts Receivable for FY 2012.

Recommendations:

We recommend that Coast Guard:

- Design and implement effective internal controls to ensure outstanding Oil Spill Liability Trust Fund accounts receivable are referred to Treasury or the Department of Justice for collection prior to becoming 180 days delinquent.
- Develop and maintain detail reports that support outstanding accounts receivable Oil Spill Liability Trust Fund summary balances.
- Design and implement internal controls for reviewing the Deepwater Horizon Incurred but Not Reported calculation.
- Develop and implement procedures for review and approval of the annual Oil Spill Liability Trust Fund allowance for doubtful accounts rate table calculation.

USCG – FMC 12-04 – Operating Materials and Supplies (NFR No. USCG 12-16)

During our FY 2012 evaluations over the balance of operating materials and supplies (OM&S), we noted the following control deficiencies:

- Logistics centers were unable to provide sufficient support for all transactions selected for testwork.
- Logistics centers had errors in various weighted average pricing calculations.

As a result of the exceptions identified, through FY 2012 expense testwork, we noted total projected misstatements to OM&S (USSGL Account 1511) at September 30, 2012 of \$12.3 million.

Recommendations:

We recommend that Coast Guard:

- Determine the underlying cause for the inability to support the Quantity On Hand in order to determine what caused the issue to ensure it is prevented in the future.
- Correct the underlying system error that caused the miscalculation.

USCG – FMC 12-05 – Financial Disclosure Reports (NFR No. USCG 12-17)

During Entity Level Control testwork, KPMG noted the following:

- The USCG does not have adequate procedures in place to ensure new entrants to Confidential Financial Disclosure Report filing positions are required to file a New Entrant Confidential Financial Disclosure Report.
- KPMG selected a sample of 25 Public Financial Disclosure Reports filed in 2012 and noted that one of the reports was not properly reviewed and approved by the DAEO, the Chief Counsel of the USCG.

Recommendation:

We recommend that Coast Guard continuously evaluate and strengthen internal controls related to the Confidential Financial Disclosure Report and Public Financial Disclosure Report filings to

Department of Homeland Security
Financial Management Comments
September 30, 2012

ensure full compliance with all Confidential Financial Disclosure Report and Public Financial Disclosure Report program rules.

XIV. UNITED STATES SECRET SERVICE (USSS)**USSS – FMC 12-01 – JE Controls (*NFR No. USSS 12-01*)**

During testwork over a sample of 55 JEs, the following deficiencies were identified:

- One instance in which documentation to support the purpose of an entry posted by the Office of Budget was not provided.
- One instance in which an entry was not properly reviewed and approved prior to posting.
- Several instances in which entries related to the recording of the pension liability and related expense were posted to the incorrect standard general ledger account.

Recommendations:

We recommend that USSS:

- Financial Management Division reinforce to the Accounting Staff that all JVs posted in the financial reporting system are subject to approval by either the Accounting Branch Chief or the Deputy Division Chief.
- Revise the procedures for posting the actuarial gains/losses based on the actuarial liability report. The procedures should also state that any changes to the procedures must be approved by the Deputy Chief of the Financial Management Division. This includes top-side adjustments from the Department as well.

USSS – FMC 12-02 – Funds Management Controls and Supporting Documentation (*NFR No. USSS 12-02*)

During testwork over USSS's open obligation balance and UDOs activity as of June 30, 2012, and September 30, 2012, we reviewed a sample of 118 transactions and identified the following deficiencies:

- One instance where the obligation had not had any activity since FY 2009, and was therefore invalid and had not been de-obligated.
- One instance in which the POP was back dated on an executed contract in order to accept the invoice for the services performed.

During testwork over USSS's operating expenses type transactions as of June 30, 2012, and September 30, 2012, we reviewed a sample of 31 transactions and identified the following deficiencies related to improper 3-way match:

- One instance in which the invoice detail did not agree to the amount of the expense per the face of the invoice.
- One instance in which the goods received date (per the face of the invoice) did not agree to the receipt date recorded in the GL.

The GL system contains limitations to appropriately post prior year de-obligations in accordance with the USSGL requirements for upward/downward adjustments.

Department of Homeland Security
Financial Management Comments
September 30, 2012

Recommendations:

We recommend that USSS:

- Reinforce policies surrounding contract execution and ratification. Additionally, USSS sections that process payments within the Financial Management Division should be provided instruction regarding the need to utilize the correct received date and to review and have supporting documentation for all invoice charges.
- For open obligations, USSS should develop and provide instruction on procedures for monitoring open obligations, obligation activity and de-obligation.

USSS – FMC 12-03 – Deficiencies in USSS’s Seized Property Inventory Process (NFR No. USSS 12-03)

We statistically selected five seized property locations in which to observe the annual inventory and noted the following:

- One instance in which the chain of custody form was not available for inspection and verification but was included on the count sheet as inventory at the site.

Upon review of the inventory completion package, we noted the following:

- One instance in which the counterfeit tracking application (CTA) did not properly reflect the transfer of a case to another field office.

Upon review of the September consolidated reconciliation, we noted the following:

- One instance in which the total not-in-evidence notes per the reconciliation were not properly updated to reflect the September activity submitted by the field office.
- Subsequent to review and approval, the total notes reported on the reconciliation as of September 30, 2012 was corrected due to a mathematical error on the original approved reconciliation.

Recommendation:

We recommend that USSS’s Forensic Services Division management and evidence vault team schedule a meeting with the Financial Management Division and the CTA program manager to review the current policies and reporting procedures used for tracking and transferring evidence, and update as necessary.

USSS – FMC 12-04 – Human Resource Compliance and Controls (NFR No. USSS 12-04)

During testwork over a sample of 25 employee personnel actions (SF-52s), the following deficiencies were identified:

- Five instances in which the quality review for the personnel action was not completed timely (i.e., within one month following the effective date of the action).
- Four instances in which documentation to evidence the completion of the quality review was not provided.
- Two instances in which documentation to support award approval was unable to be provided.
- One instance in which the employee’s grade per the SF-52 did not agree to the SF-50.

During testwork over a sample of 53 employees’ payroll and benefit expense, the following deficiencies were identified:

Department of Homeland Security
Financial Management Comments
September 30, 2012

- Inaccurate expenses calculations:
 - One instance in which the employee's overtime was calculated using the incorrect rate.
- Lack of documentation:
 - Four instances in which the SF-2809 (FEHB form), evidencing either the current benefits election or the waiver of benefits, was unable to be provided.
 - Seven instances in which the current Thrift Savings Plan election form was unable to be provided.

Recommendation:

We recommend that USSS review all standard operating procedures and make necessary adjustments. Review a random sample of data on a biweekly basis to ensure that proper procedures are followed.

XV. CONSOLIDATED (CONS)**CONS – FMC 12-02 – Interim Contingent Legal Liabilities Review (NFR No. CONS 12-02)**

As a result of our testwork and review of the FY 2012 interim contingent legal liability management schedule, case templates and component disclosure statements, we noted the following:

- Four instances where the information included on the management schedule and case templates did not agree.
- One instance where the materiality threshold for a legal disclosure statement did not match the legal materiality for the component.

Recommendation:

We recommend that DHS Financial Management continue to make improvements in executing existing controls related to the legal liability process.

CONS – FMC 12-02 – Preparation and Review of the Special-Purpose Financial Statements and Notes (NFR No. CONS 12-04)

During our audit of the closing package, we identified the following errors, related to the Government-wide Financial Report System (GFRS) Financial Report (FR) Note Reports and Trading Partner Summary Note:

- GF006 – Note 06 – PP&E – Cost of PP&E for each category section – the amount listed in Line 3 – CIP was overstated by \$99 million and the amount listed in Line 5 – IUS was understated by \$99 million.
- GF006 – Note 06 – PP&E – Intra-governmental Capitalized acquisition amounts section – the amount listed in Line 1 – GSA was overstated by \$46 million and the amount listed in Line 6 – All other departments was overstated by \$145 million, resulting in a \$191 million overstatement.
- GF006 – Note 06 – PP&E – for the prior year PP&E column, the amount listed in Line 1 – PP&E – balance beginning of year was overstated, the amount in Line 2 – Prior-period adjustments (not restated) was understated by \$153 million, the amount in Line 3 – Capitalized acquisition from the public was understated by \$234 million, the amount in Line 4 – Capitalized acquisitions from Government agencies was overstated by \$149 million, and the amount on Line 6 – Deletions from the Balance Sheet was understated by \$116 million, resulting in an understatement of \$351 million.
- GF006 – Note 06 – PP&E – for the prior year Accum. Depr. Column, the amount listed in Line 1 – PP&E – balance beginning of year was overstated by \$2 million, the amount listed in Line 2 – Prior-period adjustments (not restated) was understated by \$20 million, and the amount listed in Line 6 – Deletions from the Balance Sheet was understated by \$18 million, resulting in an understatement of \$36 million.
- GF006 – Note 18 – Contingencies (SFFAS Nos. 5 and 12) – Civil Litigation, Claims and Assessments section – the amount in Line 2 – Reasonably Possible for current year Estimated Range (High end) was understated by \$78 million, the amount in Line 1 – Probable for current year Claim amount (Unable to determine loss) was overstatement by \$11 million, and the amount in Line 2 – Reasonably Possible for current year Claim amount (Unable to determine loss) was understated by \$9 million.

Department of Homeland Security
Financial Management Comments
September 30, 2012

- GF006 – Note 26 – Heritage Assets – Text data section – the narrative data in Line 3 was not updated for FY 2012.
- The Coast Guard does not have properly designed, implemented, and effective policies, procedures, processes, and controls surrounding its financial reporting process to ascertain that intra-governmental activities and balances are identified and coded to the correct trading partner. Additionally, differences, especially with agencies outside DHS, are not consistently investigated and resolved in a timely manner in coordination with the Department’s OFM.

Recommendations:

We recommend that DHS:

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

Department of Homeland Security
Crosswalk - Financial Management Comments to Active NFRs
 September 30, 2012

Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
CBP	12-01	Automated Commercial System (ACS) Limitations – Review of Prior Related Drawback Claims and Selectivity for Underlying Consumption Entities		H		
CBP	12-02	Lack of Implementation of Controls over Determining Classification of Leases				12-01
CBP	12-03	ACS Deficiency over the Accumulation of Accelerated Payments Against a Drawback Bond				12-02
CBP	12-04	Insufficient Retention Period for Documents that Support Drawback Claims				12-03
CBP	12-05	Improper Settlement of Assets, including Untimely Capitalization of Assets from Construction in Progress (CIP) as of April 30, 2012	C			
CBP	12-05b	Improper Settlement of Assets, including Untimely Capitalization of Assets from CIP as of July 31, 2012 and September 30, 2012	C			
CBP	12-06	Weaknesses in CBP's Process Related to Asset Additions as of April 30, 2012	C			
CBP	12-06b	Weaknesses in CBP's process related to asset additions and classification of assets as of July 31, 2012 and September 30, 2012	C			
CBP	12-07	Weaknesses in Control over Timely Processing of Goods and Services received as of March 31, 2012				12-04
CBP	12-07b	Weaknesses in Controls over Timely Processing of Goods and Services received as of July 31, 2012 and September 30, 2012				12-04
CBP	12-08	Weaknesses in CBP's Process Related to Asset Disposals as of April 30, 2012	C			
CBP	12-08b	Weaknesses in CBP's Process Related to Asset Disposals as of July 31, 2012	C			
CBP	12-09	Insufficient Review of ACS and User Fee Database Reconciliation				12-05
CBP	12-10	Deficiencies in the Public and Confidential Financial Disclosure Reporting Process				12-06
CBP	12-11	Deficiencies in the Performance Management Program				12-07
CBP	12-12	ACS deficiencies over Non-Entity Accounts Receivable and CBP's ability to effectively monitor collection actions			J	
CBP	12-13	Insufficient Review of the COBRA User Fees and Immigration User Fees Accounts Receivable Estimate				12-08
CBP	12-14	Detection of Excessive Drawback Claims		H		
CBP	12-15	Lack of system integration and compliance with the United States Standard General Ledger at the transaction level related to Inventory and Related Property, Net			J	
CBP	12-16	Lack of Segregation of Duties over Collections and Deposits				12-09
CBP	12-17	Weaknesses in the Trade Compliance Measurement program				12-10
CBP	12-18	Deficiencies in the In-Bond Process		H		
CBP	12-19	Weaknesses in the Review of Weekly Entry Edit/Exception Reports				12-11
CBP	12-20	Management Oversight of Property Plant & Equipment (PP&E)	C			
CBP	12-21	Deficiencies over Monitoring of Ethics Requirements				12-12
CBP	12-22	Untimely Undelivered Orders (UDOs) Quarterly Review				12-13

Department of Homeland Security
Crosswalk - Financial Management Comments to Active NFRs
 September 30, 2012

Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
CBP	12-23	Weaknesses in controls over Customs-Trade Partnership Against Terrorism Benefits				12-14
CBP	12-24	Lack of Verification of Refunds				12-15
CBP	12-25	Weaknesses Identified in the Bonded Warehouse and Foreign Trade Zone processes and procedures		H		
CBP	12-26	Weaknesses in Controls over the Bond Sufficiency Review Process				12-16
CBP	12-27	Deficiencies in the Seized Inventory Process				12-17
CBP	12-28	Deficiencies in the Review of the Department of Labor Chargeback Report				12-18
CBP	12-29	Weaknesses in CBP's Process Related to Recording Construction Percentage of Completion Amounts				12-19
CBP	12-30	Untimely de-obligation of UDOs and Weaknesses in Related Controls				12-20
CBP	12-31	Deficiencies in the Review of SF-52 PARTS Actions				12-21
CBP	12-32	Deficiencies in the Review of Adjusting Journal Entries (JEs)				12-22
CBP	12-33	Deficiencies in the Inventory and Related Property Process				12-23
CBP	12-34	Deficiencies in Tracking CBP Leases				12-24
DNDO	12-01	Deficiencies in the Operating Expense Process				12-01
DNDO	12-01a	Deficiencies in the Operating Expense Process				12-01
DNDO	12-02	Deficiencies related to Monitoring UDOs				12-02
FEMA	12-01	Inability to Link Systems to Significant Grant Programs				12-01
FEMA	12-02	Ineffective Controls over Grant Obligations, Deobligations, and Monitoring Efforts		G	K	
FEMA	12-02a	Ineffective Controls over Grant Monitoring Efforts		G	K	
FEMA	12-02b	Ineffective Controls over Grants Management and Non-Compliance with Cash Management Improvement Act		G		
FEMA	12-03	Non-Compliance with 5 Code of Federal Regulations (CFR) Part 2634 and 5 CFR Part 2638 Related to Ethics Requirement		F		
FEMA	12-04	Ineffective Controls over Intragovernmental Activity Obligations, Deobligations, and Payments	E			
FEMA	12-05	Ineffective Design of Controls Related to Grants Activities				12-02
FEMA	12-06	Ineffective Design of Controls Related to Intragovernmental Activities				12-03
FEMA	12-07	Internal Control Deficiencies Identified over Claims Paid at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program as of March 31, 2012				12-04
FEMA	12-07a	Internal Control Deficiencies Identified over Claims Paid at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program as of August 31, 2012				12-04
FEMA	12-08	Ineffective Controls over the Recording of Funding Transactions	E			
FEMA	12-09	Deficiencies Identified over Premiums Written by FEMA's National Flood Insurance Program as of March 31, 2012				12-05

Department of Homeland Security
Crosswalk - Financial Management Comments to Active NFRs
 September 30, 2012

Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
FEMA	12-09a	Deficiencies Identified over Premiums Written by FEMA's National Flood Insurance Program as of August 31, 2012				12-05
FEMA	12-10	Ineffective Controls over Procurement Obligations, Deobligations, Payments, and Monitoring Efforts and Non-Compliance with Federal Acquisition Regulation (FAR)	E			
FEMA	12-10a	Ineffective Controls over Procurement Payments and Monitoring Efforts				12-06
FEMA	12-10b	Ineffective Controls over Procurement and Non-Compliance with FAR				12-07
FEMA	12-11	Deficiencies in the Monthly Budget Execution Reviews				12-08
FEMA	12-12	Deficiencies Identified in the Integrated Financial Management Information System Chart of Accounts and Transaction Codes				12-09
FEMA	12-12a	Continued Deficiencies Identified in the Integrated Financial Management Information System Transaction Codes as of September 30, 2012				12-09
FEMA	12-13	Ineffective Design of Controls Related to Monitoring Obligations	E			
FEMA	12-14	Deficiencies in the Preparation and Review of the Government Accountability Office (GAO) Financial Audit Manual 2010 – Checklist for Federal Accounting				12-10
FEMA	12-15	Deficiencies in Development of Mission Assignment Policies and Procedures				12-11
FEMA	12-16	Ineffective Controls over Tracking Grants Eligible for Close-out		G		
FEMA	12-17	Inadequate Documentation Related to Payroll Processing and Lack of Formal Policies and Procedures				12-12
FEMA	12-18	Ineffective Monitoring of Internal Controls via the Internal Control Board				12-13
FEMA	12-19	Lack of Documentation Related to the Contingent Legal Liabilities Review				12-14
FEMA	12-20	Deficiencies Identified over Claims' Loss Reserves at Selected Insurance Companies that Participate in FEMA's NFIP as of March 31, 2012				12-15
FEMA	12-20a	Deficiencies Identified over Claims' Loss Reserves at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program as of August 31, 2012				12-15
FEMA	12-21	Deficiencies in the Monthly Standard Form SF-132 to SF-133 Reconciliation Process	E			
FEMA	12-22	Budgetary Accounting Issues Identified in Journal Voucher (JV) Testwork through June 30, 2012	E			
FEMA	12-23	Issues Identified in JV Testwork through June 30, 2012				12-16
FEMA	12-23a	Issues Identified in JV Testwork through September 30, 2012				12-16
FEMA	12-24	Non-Compliance with Prompt Pay Act				12-17
FEMA	12-25	Lack of Communication to Employees Regarding the Department of Homeland Security (DHS) Office of Inspector General Hotline and the Code of Conduct				12-18
FEMA	12-26	General Office of Chief Procurement Officer Lack of Responsiveness and Process Knowledge				12-19
FEMA	12-27	Inability to Closeout Assistance to Firefighter Grants				12-20

Department of Homeland Security
Crosswalk - Financial Management Comments to Active NFRs
 September 30, 2012

Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
FEMA	12-28	Monitoring of Audit Findings in Accordance with Office of Management and Budget Circular A-133		G		
FEMA	12-29	Deficiencies Related to the Public Disclosure Filing Process		F		
FEMA	12-30	Deficiencies in the Monitoring of Staffing Requirements				12-21
FEMA	12-31	Improvements Needed in Management's Review of the Legacy Preparedness Accrual Model				12-22
FEMA	12-32	Untimely Reduction of Invalid Unfilled Customer Orders (UCOs)				12-23
FEMA	12-33	Improper Processing of UDOs and Expenses	E			
FEMA	12-34	Improvements Needed in Management's Review of the Acceptable Variance Range for the SmartLink Accrual Model				12-24
FEMA	12-35	Untimely De-Obligation of UDOs	E			
FEMA	12-36	Failure to Recertify Policies and Procedures in Various Areas		F		
FEMA	12-37	Deficiencies in the Methodology and Controls Related to the Non-Grant, Non-Intragovernmental Accounts Payable Accrual				12-25
FEMA	12-38	Deficiency Identified Related to the Preparation and Review of the Retrospective Review Analysis				12-26
FEMA	12-39	Deficiencies in Verification and Collection of Required Supplementary Stewardship Information and Performance Measurement Data for the Annual Financial Report's Management's Discussion and Analysis				12-27
FLETC	12-01	Deficiencies in the Financial Disclosure Reporting Process				12-01
FLETC	12-02	Beginning Balance UCO Errors	E			
FLETC	12-03	Deficiencies in the Review of SF-50s				12-02
USCIS	12-01	Inadequate Policies and Procedures over the Review of Personnel Actions				12-01
USCIS	12-02	Insufficient Reconciliation between Purchase Request Information System (PRISM) and Federal Financial Management System (FFMS)				12-02
USCIS	12-03	Potential Non-compliance with Office of Government Ethics (OGE)-450 Filing Requirements				12-03
USCIS	12-04	USCIS Contracting Officers Disregarded DHS Invoice Approval Requirements				12-04
USCIS	12-05	Insufficient Review of JEs				12-05
USCIS	12-06	Inaccurate Data in the Claims 3 system, Claims 4 system, and Marriage Fraud Amendment System				12-06
USCIS	12-07	Insufficient Review of Deposit Transactions				12-07
USCIS	12-08	Inadequate Monitoring of Fee Table Changes in Deferred Revenue Estimate Process				12-08
USCIS	12-09	Deficiencies in the Recording of Internal Use Software (IUS)				12-09
USCIS	12-10	Deficiencies in the Timely Recording of Capital Equipment				12-10
ICE	12-01	Inadequate Controls over New Hire Ethics Briefings				12-01

Department of Homeland Security
 Crosswalk - Financial Management Comments to Active NFRs
 September 30, 2012

Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
ICE	12-02	Student and Exchange Visitor Information System Data is not Reconciled to FFMS data				12-02
ICE	12-03	Inadequate Policies and Procedures for Tracking and Reporting Personal Property	C			
ICE	12-04	Inadequate Internal Controls over Tracking of IUS Projects	C			
ICE	12-05	Inadequate Internal Controls over Tracking Leasehold Improvement Projects	C			
ICE	12-06	Prior Period Settlement Expense	A			
ICE	12-07	GAO Checklist Review				12-03
ICE	12-08	Untimely Review of OGE-450 Forms				12-04
ICE	12-09	Ineffective Internal Controls Over Leave Audit Process				12-05
ICE	12-10	FFMS to PRISM Reconciliation				12-06
ICE	12-11	Subject to Availability of Funding Agreements not Obligated in FFMS at Outset of Agreement				12-07
ICE	12-12	Failure to Reverse Payroll Accrual	A			
ICE	12-13	Advances and Affiliated Obligations	E			
ICE	12-14	Federal Financial Management Improvement Act of 1996 (FFMIA) Compliance			J	
ICE	12-15	Inadequate Documentation of Subsequent Events Review Procedures	A			
ICE	12-16	Inadequate Documentation of Inventory Procedures	C			
ICE	12-17	Accounts Payable (A/P) Estimation Methodology Does not Contain Procedures for Considering Improvements to Methodology				12-08
ICE	12-18	Deficiencies in Entity-level Controls (ELCs)		F		
ICE	12-19	Untimely de-obligation of UDO Balances	E			
ICE	12-20	Recoveries of Prior Year Unpaid Obligations	E			
ICE	12-21	Inadequate Policies and Procedures for PP&E Accruals				12-09
MGA	12-01	UDO Validity				12-01
MGA	12-02	Potential Anti-deficiency Act (ADA) Violation			L	
MGA	12-03	Deficiencies in the Payroll Process				12-02
MGT	12-01	Inadequate Internal Controls over PP&E				12-01
MGT	12-02	Unfilled Customer Orders in Working Capital Fund	E			
MGT	12-03	Untimely de-obligation of UDO balances	E			
NPPD	12-01	Inadequate PRISM to FFMS reconciliation				12-01
NPPD	12-02	Inadequate review and write down of Risk Assessment and Management Program		F		
NPPD	12-03	Federal Protective Services (FPS) Accounts Receivable Allowance				12-02
NPPD	12-04	<i>Number not used</i>	Not applicable			

Department of Homeland Security
 Crosswalk - Financial Management Comments to Active NFRs
 September 30, 2012

Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
NPPD	12-05	UCOs Not Recorded for Recurring Security Agreements				12-03
NPPD	12-06	FPS Headquarters Security Billing Review				12-04
NPPD	12-07	Untimely de-obligation of UDO balances				12-05
NPPD	12-08	Potential violation of the ADA			L	
NPPD	12-09	<i>Number not used</i>	Not applicable			
NPPD	12-10	<i>Number not used</i>	Not applicable			
NPPD	12-11	ELCs		F		
NPPD	12-12	Accounts Payable Estimate Methodology				12-06
NPPD	12-13	PP&E Held at Other Agency Not Timely Recorded		F		
OHA	12-01	Bioshield A/P Accrual				12-01
OHA	12-02	Contract Management				12-02
S&T	12-01	FFMS to PRISM Reconciliation				12-01
S&T	12-02	Inadequate controls and procedures over recording and reporting personal property				12-02
S&T	12-03	Inadequate Internal Controls over reporting of CIP and buildings				12-03
S&T	12-04	Inadequate Documentation of Inventory Procedures				12-04
S&T	12-05	Inadequate UCO Review				12-05
S&T	12-06	Inadequate Policies and Procedures for Identifying Heritage Assets				12-06
TSA	12-01	Asset Exchanges				12-01
TSA	12-02	Revenue Analytic	A			
TSA	12-03	ELCs and Related Effects on Financial Reporting	A	F		
TSA	12-04	Noncompliance with Debt Collection Improvement Act (DCIA) of 1996				12-02
TSA	12-05	Revenue Fee Classification				12-03
TSA	12-06	Review of JVs				12-04
TSA	12-07	Employee Record Management and Compliance with Human Resources Related Laws				12-05
TSA	12-08	Public Financial Disclosure Forms		F		
TSA	12-09	Ineffective Controls over the Time and Attendance Process				12-06
TSA	12-10	PP&E Site Visits				12-07
TSA	12-11	PP&E Controls				12-08
TSA	12-12	Completeness of Heritage Assets				12-09
TSA	12-13	Invalid and Inaccurate UDOs	A			
TSA	12-14	Improper Expense Recognition	A			
TSA	12-15	UDO Controls – Validation and Verification				12-10

Department of Homeland Security
Crosswalk - Financial Management Comments to Active NFRs
 September 30, 2012

Component	NFR No.	Description	Disposition ¹			
			MW	SD	NC	FMC No.
TSA	12-16	Lease Accounting and Disclosure	A			
TSA	12-17	Travel Authorization Approval				12-11
TSA	12-18	Number not used	Not applicable			
TSA	12-19	Intragovernmental Payment And Collection Review Controls and Suspense Clearing				12-12
TSA	12-20	Controls over IUS	A			
TSA	12-21	Non-Compliance with the FFMIA			J	
TSA	12-22	Prior Year Adjustments	A			
USCG	12-01	PP&E Site Visit Observations	C			
USCG	12-02	Stewardship PP&E	C			
USCG	12-02a	Stewardship PP&E, Appended	C			
USCG	12-03	Fund Balance with Treasury (FBwT) Reconciliations				12-01
USCG	12-03a	FBwT Reconciliations				12-01
USCG	12-04	Opening Balances	A			
USCG	12-05	Expense Process	E			12-02
USCG	12-05a	Expense Process	E			
USCG	12-06	PP&E Asset Records	C			
USCG	12-07	Environmental and Disposal Liabilities Process Controls	D			
USCG	12-08	Non-Generally Accepted Accounting Principles Analysis	A			
USCG	12-09	Reimbursable Agreements	E			
USCG	12-10	Lease Recordation Process	C			
USCG	12-11	Accounts Receivable and DCIA Compliance				12-03
USCG	12-12	A/P	D			
USCG	12-13	Financial Statements – Impacting Scripts	B			
USCG	12-14	Recoveries of Prior Year Unpaid Obligations	E			
USCG	12-14a	Recoveries of Prior Year Unpaid Obligations				
USCG	12-15	Intragovernmental Transactions and Balances	A			
USCG	12-16	Operating Materials and Supplies				12-04
USCG	12-17	Financial Disclosure Reports				12-05
USCG	12-18	UDOs	E			
USCG	12-19	CIP	C			
USCG	12-20	FFMIA			J	
USCG	12-21	Financial Reporting Process	A			
USCG	12-22	Real Property	C			
USCG	12-23	Federal Managers’ Financial Integrity Act			I	
USCG	12-24	Manual JVs and On-Top Adjustments	A			

Department of Homeland Security
Crosswalk - Financial Management Comments to Active NFRs
 September 30, 2012

Component	NFR No.	Description	Disposition ¹			
			MW	IAR		FMC No.
				SD	NC	
USSS	12-01	JE Controls				12-01
USSS	12-02	Funds Management Controls and Supporting Documentation				12-02
USSS	12-03	Deficiencies in USSS' Seized Property Inventory Process				12-03
USSS	12-04	Human Resource Compliance and Controls				12-04
CONS	12-01	Departmental Standards of Conduct and Procedural Guidance for Financial Disclosure Report Filing		F		
CONS	12-02	Interim Contingent Legal Liabilities Review				12-01
CONS	12-03	Deficiencies in the public and confidential financial disclosure reporting process		F		
CONS	12-04	Preparation and Review of the Special-Purpose Financial Statements and Notes				12-02

¹Disposition Legend:

IAR	Independent Auditors' Report dated November 14, 2012
FMC	Financial Management Comment
MW	Contributed to a Material Weakness at the Department level when combined with the results of all other components
SD	Contributed to a Significant Deficiency at the Department level when combined with the results of all other components
NC	Contributed to Non-Compliance with laws, regulations, contracts, and grant agreements at the Department level when combined with the results of all other components
NFR	Notice of Finding and Recommendation

Cross-reference to the applicable sections of the IAR:

A	Financial Reporting
B	Information Technology Controls and System Functionality
C	Property, Plant, and Equipment
D	Environmental and Other Liabilities
E	Budgetary Accounting
F	Entity-Level Controls
G	Grants Management
H	Custodial Revenue and Drawback
I	<i>Federal Managers' Financial Integrity Act of 1982 (FMFIA)</i>
J	<i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i>
K	<i>Single Audit Act Amendments of 1996</i>
L	<i>Antideficiency Act, as amended (ADA)</i>

Department of Homeland Security
Status of Prior Year NFRs
 September 30, 2012

Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2011 NFR No.)
CBP	11-01	Certification of Refund and Drawback Payments	X	
CBP	11-02	Insufficient Retention Period for Documents that Support Drawback Claims		CBP 12-04
CBP	11-03	Automated Commercial System (ACS) Deficiency over the Accumulation of Accelerated Payments Against a Drawback Bond		CBP 12-03
CBP	11-04	ACS Limitations – Review of Prior Related Drawback Claims and Selectivity for Underlying Consumption Entries		CBP 12-01
CBP	11-05	ACS Deficiencies over Non-Entity Accounts Receivable (A/R) and CBP's Ability to Effectively Monitor Collection Actions		CBP 12-12
CBP	11-06	Lack of System Integration and Compliance with the United States Standard General Ledger at the Transaction Level Related to Inventory and Related Property, Net.		CBP 12-15
CBP	11-07	Weaknesses in CBP's Processes Related to Asset Additions and Classification of Property, Plant, and Equipment (PP&E) Related Transactions as of April 30, 2011		CBP 12-06
CBP	11-07b	Weaknesses in CBP's Processes Related to Asset Additions and Classification of PP&E Related Transactions as of July 31, 2011 and September 30, 2011		CBP 12-06b
CBP	11-08	Improper Settlement of Assets, Including Untimely Capitalization of Assets from Construction in Progress (CIP) as of April 30, 2011		CBP 12-05
CBP	11-08b	Improper Settlement of Assets, Including Untimely Capitalization of Assets from CIP as of July 31, 2011 and September 30, 2011		CBP 12-05b
CBP	11-09	Weaknesses in CBP's Processes Related to Asset Disposals as of April 30, 2011		CBP 12-08
CBP	11-09b	Weaknesses in CBP's Processes Related to Asset Disposals as of July 31, 2011 and September 30, 2011		CBP 12-08b
CBP	11-10	Lack of Controls over Timely Processing of Goods and Services Received as of March 31, 2011		CBP 12-07
CBP	11-10b	Lack of Controls over Timely Processing of Goods and Services Received as of July 31, 2011 and September 30, 2011		CBP 12-07b
CBP	11-11	Weaknesses in the Monitoring and Review Process over Fines, Penalties, and Forfeiture Cases	X	
CBP	11-12	Lack of Implementation of Controls over Determining Classification of Leases		CBP 12-02
CBP	11-13	Weaknesses in the Review of Weekly Entry Edit/Exception Reports		CBP 12-19
CBP	11-14	Lack of Evidence of Review of the Drawback Auto/Deemed (D28) Alert Report	X	
CBP	11-15	Detection of Excessive Drawback Claims		CBP 12-14
CBP	11-16	Deficiencies in the In-Bond Process		CBP 12-18
CBP	11-17	Deficiencies in the Public Financial Disclosure Reporting Process		CBP 12-10
CBP	11-18	Deficiencies in the Performance Management Program		CBP 12-11
CBP	11-19	Weaknesses in Controls over automated Journal Entries (JEs)	X	
CBP	11-20	Weaknesses in Controls over the Bond Sufficiency Review Process		CBP 12-26
CBP	11-21	Incorrect Use of CBP Overtime Scheduling System Codes	X	
CBP	11-22	Lack of Formal Process for Determining Required Supervisory Reviews	X	
CBP	11-23	Deficiencies over Monitoring of Ethics Requirements		CBP 12-21
CBP	11-24	Incomplete Undelivered Orders (UDOs) Quarterly Review		CBP 12-22
CBP	11-25	Weaknesses Identified in the Bonded Warehouse and Foreign Trade Zone Processes and Procedures		CBP 12-25

Department of Homeland Security
Status of Prior Year NFRs
 September 30, 2012

Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2011 NFR No.)
CBP	11-26	Weaknesses in the Trade Compliance Measurement Program		CBP 12-17
CBP	11-27	Management Oversight of PP&E		CBP 12-20
CBP	11-28	Untimely De-obligation of UDOs and Monitoring of Period of Performance		CBP 12-30
CBP	11-29	Weaknesses in CBP's Process Related to Recording Construction Percentage of Completion Amounts		CBP 12-29
CBP	11-30	Weaknesses in CBP's Payroll Reconciliation Process	X	
CBP	11-31	Insufficient Review of Manual JEs	X	
CBP	11-32	Deficiencies in the Review of the Department of Labor Chargeback Report		CBP 12-28
FEMA	11-01	Insufficient Controls over Processing Mission Assignments (MAs)		FEMA 12-04
FEMA	11-02	Deficiencies in Development and Application of Policies Related to the Non-Grant, Non-MA, Non-System-Generated Accounts Payable (A/P) Accrual		FEMA 12-37
FEMA	11-03	Non-Compliance with 5 Code of Federal Regulations (CFR) Part 2638 and 5 CFR Part 2638 Related to Ethical Requirements		FEMA 12-03
FEMA	11-04	Inability to Closeout Assistance to Firefighter Grants		FEMA 12-27
FEMA	11-05	Deficiencies in Development of MA Policies and Procedures		FEMA 12-15
FEMA	11-06	Ineffective Controls over Processing and Monitoring Obligations		FEMA 12-04, FEMA 12-10, FEMA 12-10a, FEMA 12-10b, FEMA 12-13
FEMA	11-07	Incomplete Implementation of Controls over the Recording of Funding Transactions		FEMA 12-08
FEMA	11-08	Lack of Certain Documentation Related to Compliance with the Improper Payments Elimination and Recovery Act of 2010	X	
FEMA	11-09	Ineffective Controls over Tracking Grants Eligible for Closeout		FEMA 12-16
FEMA	11-10	Financial Monitoring of Grants by the Grant Programs Directorate		FEMA 12-02, FEMA 12-02a, FEMA 12-02b
FEMA	11-11	Inability to Link Systems to Significant Grant Programs		FEMA 12-01
FEMA	11-12	Deficiencies in the Preparation and Review of the Government Accountability Office (GAO) Financial Audit Manual 2010 – Checklist for Federal Accounting (the Checklist)		FEMA 12-14
FEMA	11-13	Monitoring of Audit Findings in Accordance with Office of Management and Budget (OMB) Circular Nos. A-133 and A-50, and Related Compliance Matters		FEMA 12-28
FEMA	11-14	Inaccuracy of Claims' Loss Reserves at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program (NFIP)		FEMA 12-20, FEMA 12-20a
FEMA	11-15	Internal Control Deficiencies over Claims Paid at Selected Insurance Companies that Participate in FEMA's NFIP		FEMA 12-07, FEMA 12-07a
FEMA	11-16	Lack of Formal Policies and Procedures in Various Areas		FEMA 12-36
FEMA	11-17	Deficiencies in the Monthly Spend Plan Reconciliation Preparation Process		FEMA 12-11
FEMA	11-18	Deficiencies Identified in the General Ledger Chart of Accounts and Transaction Codes		FEMA 12-12, FEMA 12-12a
FEMA	11-19	Improvements Needed in Review and Recording of Year-End MA	X	

Department of Homeland Security
Status of Prior Year NFRs
 September 30, 2012

Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2011 NFR No.)
		Accrual		
FEMA	11-20	Ineffective Controls over Grants Management		FEMA 12-02, FEMA 12-05, FEMA 12-06
FEMA	11-21	Budgetary Accounting Issues Identified in Journal Voucher (JV) Testwork Through September 30, 2011		FEMA 12-22
FEMA	11-22	Improvements Needed in Management's Review of Grant Data and Automated Reconciliations in Grant Accrual Models		FEMA 12-34, FEMA 12-31
FEMA	11-23	Issues Identified in JV Testwork through September 30, 2011		FEMA 12-23, FEMA 12-23a
FEMA	11-24	Compliance with the Prompt Payment Act		FEMA 12-24
FEMA	11-25	Improper Processing and Untimely De-Obligation of UDOs		FEMA 12-33, FEMA 12-35
FEMA	11-26	Deficiencies in Verification and Collection of Performance Measurement Data for the Annual Financial Report's Management's Discussion and Analysis		FEMA 12-39
FEMA	11-27	Deficiencies in the Grant Accrual Methodology	X	
FEMA	11-28	Deficiencies over the NFIP Treasury Information Executive Repository JV Adjustments	X	
FEMA	11-29	Lack of communication regarding the existence of the Department of Homeland Security Office of Inspector General Fraud Hotline		FEMA 12-25
FLETC	11-01	Capitalization of PP&E	X	
USCIS	11-01	Lack of Controls over List-to-Floor Manual Processes	X	
USCIS	11-02	Deficiencies in the Timely Recording of Capital PP&E		USCIS 12-10
USCIS	11-03	Lack of Policies and Procedures over Non-Itemized Invoices for PP&E	X	
USCIS	11-04	Inadequate and/or Inconsistent Supervisory Review of Personnel Actions		USCIS 12-01
USCIS	11-05	Inadequate Supervisory Review of the Intra-Departmental Eliminations Reconciliation	X	
USCIS	11-06	Untimely Change in Accounting Policies and Practices	X	
USCIS	11-07	Inadequate Data in the Claims 3 system, Claims 4 system, and Marriage Fraud Amendment System		USCIS 12-06
USCIS	11-08	Inadequate Documentation and Untimely Capitalization of Internal Use Software (IUS)		USCIS 12-09
ICE	11-01	The Federal Financial Management System (FFMS) has the Ability to Make Duplicate Payments	X	
ICE	11-02	Failure to Record Payroll Accrual	X	
ICE	11-03	General Journal Entry Not Approved by Office of Financial Management Director	X	
ICE	11-04	Inadequate Internal Controls over Tracking and Removing Accumulated Depreciation in Sunflower Asset Management System	X	
ICE	11-05	Process for Identifying Contract-type Obligations for Contract Closeout is Delayed		ICE 12-19
ICE	11-06	Inadequate Internal Controls over Tracking Leasehold Improvement Projects		ICE 12-05
ICE	11-07	Untimely Recording of Capitalized Asset Disposals		ICE 12-03

Department of Homeland Security
Status of Prior Year NFRs
 September 30, 2012

Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2011 NFR No.)
ICE	11-08	Reimbursable Agreements Not Timely Approved by Budget Officer	X	
ICE	11-09	<i>Number Not Used</i>		Not applicable
ICE	11-10	Contracting Officer has Access to Approve Invoices in FFMS	X	
ICE	11-11	Incorrect Federal Employees' Group Life Insurance Deduction	X	
ICE	11-12	Untimely Review of Office of Government Ethics 278 Forms		ICE 12-08
ICE	11-13	Insufficient Documentation for Federal Employees' Compensation Act Claims	X	
ICE	11-14	FFMIA Compliance		ICE 12-14
ICE	11-15	Inadequate Controls over New Hire Ethics Briefings		ICE 12-01
ICE	11-16	Subject to Availability of Funding Agreements not Obligated in FFMS at Outset of Agreement		ICE 12-11
ICE	11-17	Ineffective Internal Controls over Leave Audit Process		ICE 12-09
ICE	11-18	ICE Does Not Accrue Capitalized Costs Incurred at year-end for Software and Leasehold Improvement Projects	X	
ICE	11-19	Inadequate Internal Controls over Tracking of IUS Projects		ICE 12-04
MGT	11-01	Inadequate Internal Controls over PP&E		MGT-12-01
NPPD	11-01	Inadequate Internal Controls over Reporting of Government Furnished Equipment Asset Disposals	X	
NPPD	11-02	Subject to Availability of Funding Agreements Not Obligated in FFMS at Outset of Agreement	X	
NPPD	11-03	Potential Antideficiency Act Violation		NPPD-12-08
NPPD	11-04	Inadequate Internal Controls over Reporting of IUS Projects	X	
NPPD	11-05	Inadequate Internal Controls over Reporting of Equipment		NPPD-12-13
NPPD	11-06	Untimely Reporting of Leasehold Improvements	X	
S&T	11-01	Inadequate Internal Controls over Reporting of CIP and Buildings		S&T 12-01
S&T	11-02	Untimely De-obligation of UDOs	X	
S&T	11-03	Inadequate Controls over New Hire Ethics Briefings	X	
S&T	11-04	Insufficient Internal Controls to Ensure Timely Reporting of IUS in Development and Personal Property	X	
TSA	11-01	Employee Record Management and Compliance with Human Resource Related Laws		TSA 12-07
TSA	11-02	Accrued Payroll Controls	X	
TSA	11-03	Ineffective Controls at the Dallas Warehouse	X	
TSA	11-04	Ineffective Controls over the Time and Attendance Process		TSA 12-09
TSA	11-05	PP&E Federal Air Marshals (FAMS)		TSA 12-10
TSA	11-06	PP&E Site Visits		TSA 12-10
TSA	11-07	Policies and Procedures over the PP&E Process		TSA 12-11
TSA	11-08	GAO Checklist	X	

Department of Homeland Security
Status of Prior Year NFRs
 September 30, 2012

Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2011 NFR No.)
TSA	11-09	Incorrect Trading Partner Codes	X	
TSA	11-10	UDO Process		TSA 12-15
TSA	11-11	<i>Number Not Used</i>	Not applicable	
TSA	11-12	Review of JEs		TSA 12-06
TSA	11-13	<i>Number Not Used</i>	Not applicable	
TSA	11-14	A/P Process		TSA 12-19
TSA	11-15	PP&E Provided by Client Issues	X	
TSA	11-16	Lack of Policies and Procedures over IUS		TSA 12-20
TSA	11-17	Warehouse Reconciliation to the General Ledger	X	
TSA	11-18	Travel Authorization Approval		TSA 12-17
TSA	11-19	Accounting for Other Direct Costs	X	
TSA	11-20	A/R Controls	X	
TSA	11-21	Reporting PP&E	X	
TSA	11-22	UDO Documentation		TSA 12-13
TSA	11-23	Entity-Level Controls		TSA 12-03
TSA	11-24	Non-Compliance with the <i>Debt Collection Improvement Act of 1996</i>		TSA 12-04
TSA	11-25	Warehouse Controls	X	
TSA	11-26	A/P Balance	X	
TSA	11-27	Financial Reporting Deficiencies	X	
TSA	11-28	Non-Compliance with FFMIA		TSA 12-21
TSA	11-29	Lease Accounting and Disclosure		TSA 12-16
TSA	11-30	Accounting for Advances and Prepayments	X	
TSA	11-31	Undelivered Orders Documentation – FAMS	X	
USCG	11-01	Environmental Liabilities		USCG 12-07
USCG	11-02	Heritage Assets		USCG 12-02
USCG	11-03	Financial Management Oversight	X	
USCG	11-04	Statement of Net Cost	X	
USCG	11-05	Fund Balance with Treasury Reconciliations		USCG 12-03
USCG	11-06	Cumulative Results of Operations	X	
USCG	11-07	UDOs		USCG 12-18
USCG	11-08	Legal Liability Reporting	X	
USCG	11-09	Accrued Payroll and Unfunded Leave Accrual (Military)	X	
USCG	11-10	Accrued Payroll and Unfunded Leave Accrual	X	
USCG	11-11	Financial Reporting Process		USCG 12-04
USCG	11-12	A/P Accrual		USCG 12-12
USCG	11-13	Financial Disclosure Reports		USCG 12-17
USCG	11-14	Purchase Requests/Commitments	X	

Department of Homeland Security
Status of Prior Year NFRs
 September 30, 2012

Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2011 NFR No.)
USCG	11-15	A/R		USCG 12-11
USCG	11-16	Operating Materials and Supplies		USCG 12-16
USCG	11-17	PP&E Non-CIP Assets		USCG 12-19
USCG	11-18	<i>Federal Managers' Financial Integrity Act of 1982</i>		USCG 12-23
USCG	11-19	PP&E Asset Records		USCG 12-06, USCG 12-10
USCG	11-20	Human Resources Compliance with Laws and Regulations	X	
USCG	11-21	Intragovernmental Transactions and Balances		USCG 12-15
USCG	11-22	PP&E: Repairables	X	
USCG	11-23	PP&E: CIP		USCG 12-19
USCG	11-24	Actuarial Medical Liabilities	X	
USCG	11-25	Federal Managers' Financial Integrity Act of 1996		USCG 12-20
USCG	11-26	PP&E: 4 th Quarter Site Visit Observations		USCG 12-01
CONS	11-01	Departmental Standards of Conduct and Procedural Guidance for Financial Disclosure Report Filing		CONS 12-01
CONS	11-02	Audited Financial Statements	X	
CONS	11-03	Untimely Filing and Review of SF-278 Financial Disclosure Reports		CONS 12-03
CONS	11-04	Non-Compliance with OMB Circular A-136 & <i>Government Performance and Results Act</i>	X	
CONS	11-05	Preparation and Review of the Special-Purpose Financial Statements and Notes		CONS 12-04
CONS	11-06	Findings Related to the Disbursement Process	Note 1	

¹ KPMG was engaged to perform an audit over the DHS balance sheet and the related statements of net cost, changes in net position and custodial activity, and combined statement of budgetary resources for the year then ended. In addition, we were engaged to follow-up on the status of all active NFRs that supported significant deficiencies reported in our FY 2011 *Independent Auditors' Report*.

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

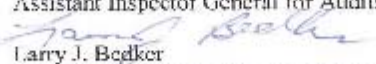
Note 1: Due to the expanded scope in the FY 2012 audit, this finding was addressed at the component level.

Department of Homeland Security
*Management Response to the
Management Letter*
September 30, 2012

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



MEMORANDUM FOR: Anne Richards
Assistant Inspector General for Audits

FROM: 
Larry J. Bedker
Director, DHS Financial Management

SUBJECT: Management Letter for the DHS' FY 2012 Financial Statements
and Internal Control over Financial Reporting Audit

Thank you for the opportunity to comment on the Draft Management Letter for the FY 2012 DHS Financial Statements and Internal Control over Financial Reporting Audit. We concur with the report's recommendations and remain fully committed to addressing our outstanding financial management challenges. We appreciate your office's contributions and insights, and we look forward to working with you as we implement our corrective actions and the *DHS Financial Accountability Act*.

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



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix A
Report Distribution

Department of Homeland Security

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

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees, as appropriate

ADDITIONAL INFORMATION AND COPIES

To obtain additional copies of this document, please call us at (202) 254-4100, fax your request to (202) 254-4305, or e-mail your request to our Office of Inspector General (OIG) Office of Public Affairs at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov.

For additional information, visit our website at: www.oig.dhs.gov, or follow us on Twitter at: [@dhsoig](https://twitter.com/dhsoig).

OIG HOTLINE

To expedite the reporting of alleged fraud, waste, abuse or mismanagement, or any other kinds of criminal or noncriminal misconduct relative to Department of Homeland Security (DHS) programs and operations, please visit our website at www.oig.dhs.gov and click on the red tab titled "Hotline" to report. You will be directed to complete and submit an automated DHS OIG Investigative Referral Submission Form. Submission through our website ensures that your complaint will be promptly received and reviewed by DHS OIG.

Should you be unable to access our website, you may submit your complaint in writing to: DHS Office of Inspector General, Attention: Office of Investigations Hotline, 245 Murray Drive, SW, Building 410/Mail Stop 2600, Washington, DC, 20528; or you may call 1 (800) 323-8603; or fax it directly to us at (202) 254-4297.

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