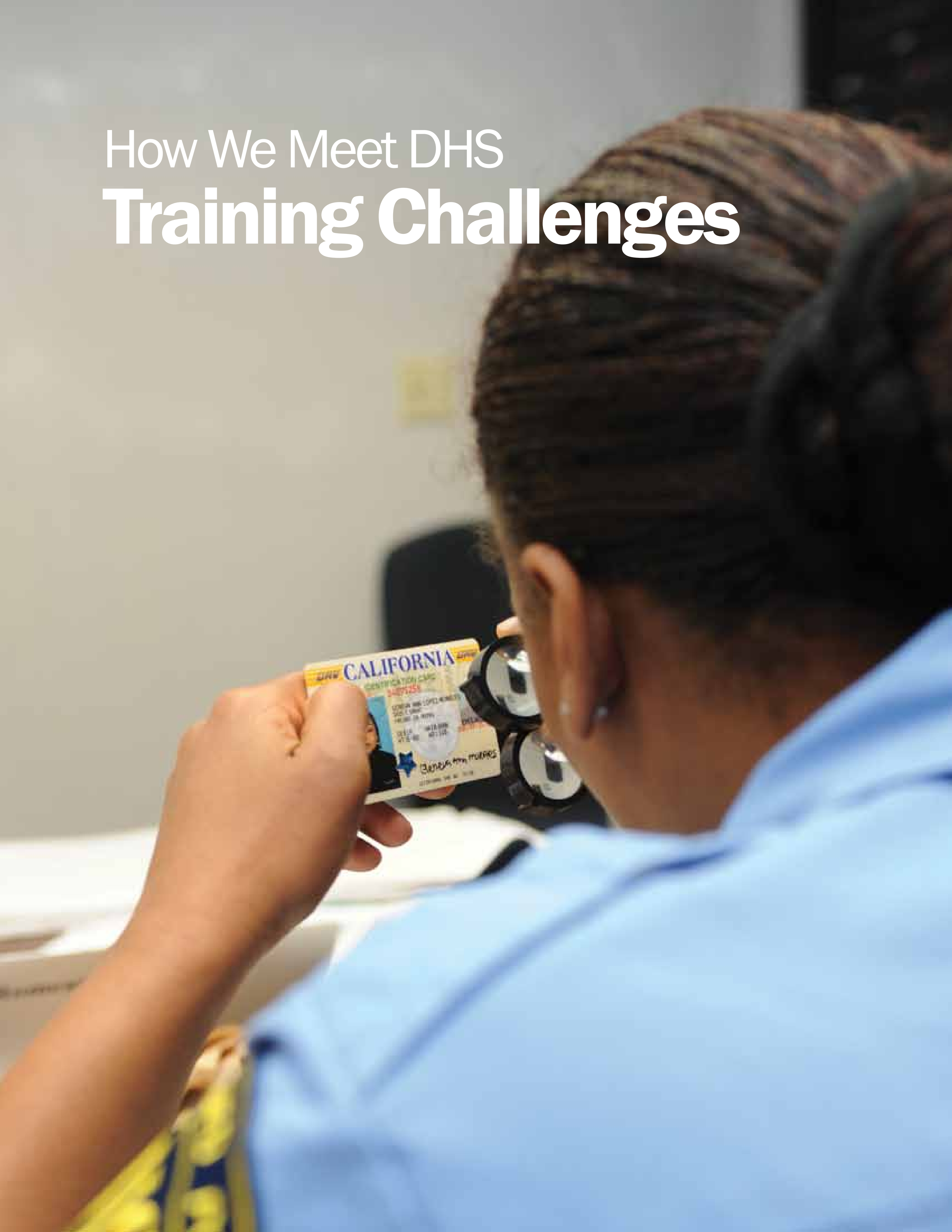
Agency Financial Report

Fiscal Year 2009

Federal Law Enforcement Training Center

Homeland Security

How We Meet DHS **Training Challenges**



Federal Law Enforcement Training Center
U.S. Department of Homeland Security
1131 Chapel Crossing Road
Glynco, Georgia 31524

Homeland Security

Message from the Director

I am pleased to present the Federal Law Enforcement Training Center's (FLETC) Agency Financial Report (AFR) for Fiscal Year (FY) 2009. The FLETC has chosen to produce this alternative to the Performance and Accountability Report (PAR) pursuant to current guidance under OMB Circular A-136.

The FLETC's mission is to train those who protect our homeland. We continually strive to provide fast, flexible and focused training that best meets our customers' needs. This AFR provides operational highlights and financial information to assist readers of the report in judging the success of the FLETC in fulfilling its mission. Management deems this information to be accurate and complete. The FLETC holds itself accountable for efficient and effective operations, and the assessments of its internal controls and compliance are discussed in the Management's Discussion and Analysis, the Chief Financial Officer's letter and the Independent Auditors' Report contained within this AFR.

As described in the 2009 Highlights section of this report, the FLETC was very active throughout FY 2009 developing new training programs, completing several construction projects, conducting program accreditations and implementing other initiatives. Notable items include development of a new training delivery system, the FLETC TV, continued development and expansion of international training opportunities and full support of the DHS Secretary Napolitano's Efficiency Review initiative. The FLETC continued efforts in 2009 to ensure student's needs are effectively and efficiently addressed. For example, in 2009 we introduced a new and innovative meal service, "On the Go", that reduced student dining wait time. Also, introduced during the year were new and creative healthy meal offerings which, in part, led to an increase in Dining Hall student participation from 60% to 90%. Health services at the FLETC were modernized with the opening of a new health unit facility at Glynco providing a modern, robust and consolidated venue.

2009 resulted in the training of over 67,000 law enforcement professionals. Law enforcement professionals are the front-line protectors of our homeland. Training is vital for effective and safe performance of our law enforcement officers. Let us continue to make America a safer place.

Connie L. Patrick

Connie L. Patrick
Director

Apply Innovative **Technology**

FY2009 Agency Financial Report

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For more information or additional copies of this report contact the
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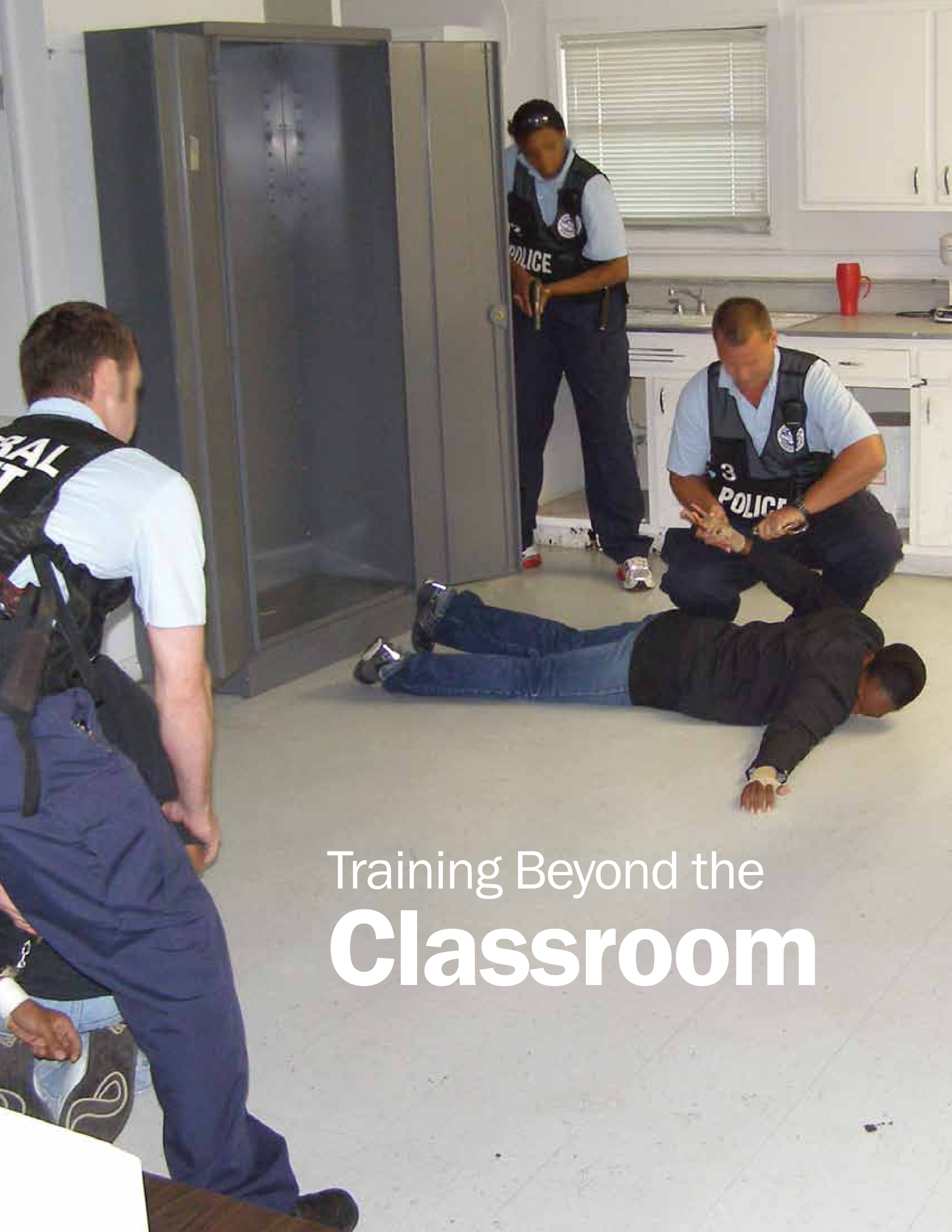


Training Beyond the Classroom

Executive Summary

The Federal Law Enforcement Training Center (FLETC) has elected to prepare an Agency Financial Report (AFR). The AFR is an alternative to the Performance and Accountability Report (PAR), pursuant to the Office of Management and Budget (OMB) pilot program addressed in Circular A-136, Financial Reporting Requirements.

This report complies with the AFR format established by OMB Circular A-136, and includes a message from the FLETC's Director, Management's Discussion and Analysis in Part I, Financial Information Section in Part II and Other Accompanying Information in Part III. The FLETC Chief Financial Officer's letter, Independent Auditors' Report, and the Financial Statements, Notes to the Financial Statements and Required Supplementary Information are in Part II. Part III presents Supplementary Information relevant to the FLETC training operations.

A copy of the FLETC's FY 2009 AFR is available for public review and downloading at the FLETC's Web Page: http://www.fletc.gov/reference/reports.

Results of the FLETC FY 2009 performance measures are included in the U.S. Department of Homeland Security Annual Performance Report Fiscal Years 2009 – 2011, which can be obtained at http://www.dhs.gov/xabout/budget/gc_1214235565991.shtm.

Skills to Protect Our **Homeland**

Management's Discussion and Analysis
Part I

Introduction

The Federal Law Enforcement Training Center (FLETC) is an agency within the U.S. Homeland Security (DHS). The FLETC is the leader in career-long law enforcement training, preparing law enforcement professionals to fulfill their responsibilities safely and proficiently, and ensuring that training is accomplished in the most cost-effective manner. The FLETC is an interagency organization that provides law enforcement training to the majority of Federal law enforcement personnel, while also training state, local and international law enforcement personnel. The number of agencies attending training and the number of students trained have steadily increased over the FLETC's 39-year history.

To accomplish our mission, the following strategic goals guide our priorities and actions:

- Provide training that enables our partners to accomplish their missions.
- Foster a high-performing workforce.
- Provide mission-responsive infrastructure.
- Optimize business practices.

History

Prior to the establishment of the FLETC in 1970, the quality of training received by Federal law enforcement personnel varied greatly among Federal agencies. Standardized training was an unexplored concept, and inadequate facilities and redundancy were prevalent as each agency independently trained its own personnel. Studies conducted in the late 1960s revealed an urgent need for high-quality, cost-effective training by a cadre of professional instructors using modern training facilities and standardized course content. The U.S. Congress responded by authorizing funds for planning and constructing the Consolidated Federal Law Enforcement Training Center (CFLETC), later named the FLETC.

After beginning operations in Washington, DC, the FLETC headquarters was relocated to Glynco, Georgia in 1975. Located on the southeast Georgia coast, the Glynco training center has classroom buildings, dining and residence halls, and state-of-the-art facilities for firearms, physical, driver, marine, and computer-based training activities. A similar, but smaller training center is located in Artesia, New Mexico. The Artesia site, which opened in late 1989, accommodates training for the Bureau of Indian Affairs, other law enforcement personnel located in the western United States, and it now also hosts the U.S. Border Patrol (USBP) Academy. In May 2001, the former Naval Communications Detachment facility in Cheltenham, Maryland, was transferred to the FLETC for conversion into a firearms and vehicle training facility that is used principally for in-service and re-qualification for Federal law enforcement officers and agents in the metropolitan Washington, DC area. In February 2003, Public Law 108-7 established Charleston, South Carolina as a permanent training facility within DHS to be operated under the direction of the FLETC. In December 2004, the United States Coast Guard established its Maritime Law Enforcement Academy at FLETC, Charleston, South Carolina.

Originally, only a handful of agencies trained at the FLETC. Today, the FLETC provides law enforcement training to the majority of Federal law enforcement personnel, representing 89 Federal agencies. A majority of the partner organizations have transferred portions or all of their law enforcement training operations to one of the FLETC's training sites. The Partner Organizations' training offices and academies coordinate the training activities of their personnel and conduct advanced and agency-specific training programs. Additionally, other Federal, state and local organizations, along with international law enforcement personnel, train at the FLETC on a space-available basis. The growth in the number of agencies that train at the FLETC clearly substantiates the success and resiliency of the consolidated training concept, as well as the quality and cost effectiveness of the training provided to the clientele.

Mission

The FLETC's mission is to train those who protect our homeland. The FLETC serves as the Federal government's leader for and provider of world-class law enforcement training. FLETC prepares new and experienced law enforcement professionals to fulfill their responsibilities safely and proficiently. The average basic student receives instruction in all phases of law enforcement from firearms and high-speed vehicle operations to legal case instructions, simulation and defendant interview techniques. FLETC accommodates the students' housing, food, laundry and subsistence needs to allow them to totally focus on their training. FLETC also ensures that training is provided in the most cost-effective manner by taking advantage of economies of scale available only from a consolidated law enforcement training organization.

FLETC is committed to providing strong, collaborative leadership for law enforcement training. Working as partners with client agencies, including state, local and international organizations, FLETC recognizes the dynamic nature of the planning and management processes and will adjust, as needed, to provide world-class law enforcement training to those organizations that use FLETC facilities and services.

Major instructional areas include firearms, driver training, physical techniques, legal, counterterrorism, forensics and investigative technologies, computer and financial investigations, and behavioral science. The major portion of the FLETC's training activity is devoted to basic programs for criminal investigators and uniformed police officers who have the authority to carry firearms and make arrests. The basic programs consist of classroom instruction, simulation, and hands-on practical exercises. Students must apply their classroom knowledge during exercises that simulate typical situations encountered on the job. To add realism, these exercises often involve role players who act as victims, witnesses or suspects.

At the FLETC, students learn not only the responsibilities of law enforcement personnel, but through interaction with students from many other agencies, they also become acquainted with the missions and duties of their colleagues. This interaction provides the foundation for a more cooperative Federal law enforcement effort.

The instructor cadre at the FLETC consists of permanent FLETC employees, rehired annuitants, and Federal officers and investigators on short-term detail assignment from their home organizations. This mix of permanent and detailed instructors provides a balance of experience and fresh insight from the field.

Organization

The FLETC, whose senior manager is the Director, is organized into seven directorates. The following describes the elements in the Table of Organization:

Office of the Director: The Office of the Director administers the activities of the FLETC and is responsible for accomplishing its mission. The Director provides overall direction for the operation of the FLETC's programs with the objective of ensuring effective, efficient and economical administration. The Director develops, manages and directs the FLETC's programs. Staff attached to this office includes the Chief of Staff, who provides management oversight for the Equal Employment Opportunity, Inspection and Compliance Division, and Public Affairs. The staff assists the Director in accomplishing the mission of the FLETC by providing coordination, public affairs, and other activities. The Office of Chief Counsel provides legal counsel on all aspects of the FLETC operations. In the absence of the FLETC Director, the Deputy Director acts in that capacity.

Assistant Director for Washington Operations: The Assistant Director provides legislative support and DHS and OMB coordination. The following offices report to the Assistant Director for Washington Operations.

- **Office of International Training and Technical Assistance:** This office provides oversight for the administration and delivery of international law enforcement training programs. The office plans, develops, and presents training courses and practical exercise applications related to international law enforcement training.

    - **International Law Enforcement Academy (ILEA) Gaborone, Botswana, Africa:** Provides management direction for the Botswana ILEA.

    - **International Law Enforcement Academy (ILEA) San Salvador, El Salvador:** Provides management direction for the Latin America ILEA.

- **Office of State and Local Law Enforcement Training:** This office presents specialized program offerings that enhance networking and cooperation between Federal, state, and local law enforcement agencies. These programs vary in length from three days to four weeks. Additionally, technical assistance is provided to state and local law enforcement agencies' training initiatives.

    - **Rural Policing Institute:** This office offers advanced and specialized training to state, local, campus and tribal law enforcement officers, and other emergency resonders working in rural areas.

Chief Financial Officer (CFO) Directorate: This directorate plans and directs the activities related to the FLETC's budget, financial systems and strategic plans. This office administers the integration of planning and performance measurement activities with budget formulation and execution. This office ensures the integrity of financial records and performs periodic reporting of financial activities. The CFO Directorate consists of three subordinate divisions and the Federal Law Enforcement Training Accreditation's Office of Accreditation:

- **Budget Division:** This division prepares the FLETC budget submission for DHS, OMB, and Congres sional levels, executes the fiscal year appropriations for the bureau, and develops cost data for train ing programs.

- **Finance Division:** This division directs the financial management system including all accounting and reporting of financial activities, administers the core financial management software, and provides accounting services involving accounts payable, accounts receivable, payroll, and travel to FLETC divisions and to Intelligence Analysis and Operations and Planning Department, the DHS components serviced by FLETC.

- **Strategic Planning and Analysis Division:** This division develops the FLETC Strategic Plan and researches, develops, recommends and documents policies and procedures, conducts management analysis and competitive sourcing, and reports performance goals and measurements.

- **Federal Law Enforcement Training Accreditation (FLETA) Office of Accreditation:** This office serves as the agent of the FLETA Board working in partnership with Federal law enforcement organizations to maintain professional law enforcement training standards and guide clients through the accreditation process.

Chief Information Officer Directorate: This directorate manages two divisions in support of the FLETC's initiative for expanding electronic government, overall information technology (IT) planning function, coordination of IT expenditures and activities, and compatibility of IT equipment and service acquisitions.

- **Operations/Support Division:** This division supports FLETC IT infrastructure operations and maintenance.

- **Information Technology Solutions Management Division:** This division supports project planning, acquisition, and implementation activities. It also coordinates the implementation of leading edge technologies to support law enforcement training.

Office of the Deputy Director: The Deputy Director assists the Director and acts, in her behalf during her absence, in administering the activities of the FLETC. The Deputy Director provides overall direction to the four subordinate directorates for the operation of the FLETC's programs. In addition, other staff attached to this office includes the Office of Security and Emergency Management and the Special Investigations Division.

- **Glynco Training Directorate:** Consisting of two major subordinate offices, the Offices of Mission Integration and Training Operations, this directorate administers all law enforcement training activities at the FLETC headquarters.

  - **Office of Mission Integration:** This office directs faculty and staff and manages programs in support of basic, advanced and specialized law enforcement training. There are two faculty elements within the Office of Mission Integration.

    - **Behavioral Science Division:** This division plans, develops, and presents formal training courses and practical exercise applications related to the area of interpersonal relations including interviewing, handling crisis situations, professional ethics, conduct, sexual harassment, cultural sensitivity, and oral and written communications.

    - **Legal Division:** This division plans, develops, and presents formal training courses and practical exercise applications related to the U.S. Constitution, applicable case law, statutory provisions, criminal law and evidence procedures.

  - **Office of Training Operations:** This office directs faculty and staff, manages programs in support of basic, advanced and specialized law enforcement training, and administers the FLETC accreditation program. There are nine faculty elements within the Office of Training Operations.

    - **Firearms Division:** This division plans, develops, and presents formal training courses and practical exercise applications related to the specialized and technical nature of law enforcement armament and weaponry. This division is also responsible for the special use equipment and facilities assigned, including the armory, which provides FLETC-wide armament and weaponry security, repair, and maintenance services.

    - **Law Enforcement Leadership Institute:** This division plans, develops, and presents formal training courses and practical exercise applications related to managing and supervising law enforcement operations.

    - **Physical Techniques Division:** This division plans, develops, and presents formal training courses and practical exercise applications related to trauma management and cardiopulmonary resuscitation, self defense, arrest techniques, physical fitness, safety and water survival. This division is also responsible for special use equipment and facilities assigned to the specific training area.

- **Enforcement Operations Division:** This division plans, develops, and presents formal training courses and practical exercise applications related to various law enforcement operational procedures ranging from undercover and surveillance activities to the execution of search warrants. This division also provides the overall coordination for practical exercises.

- **Forensics and Investigative Technologies Division:** This division plans, develops, and presents formal training courses and practical exercise applications related to various criminalistic skills and knowledge, including laboratory and crime scene activities.

- **Investigative Operations Division:** This division plans, develops, and presents formal training courses and practical exercise applications related to anti-terrorism, counter-terrorism, and physical security.

- **Technical Operations Division:** This division provides technology training based on continuing research that is conducted in order to design, develop, coordinate, and administer training programs related to the prevention, detection, investigation, and prosecution of crime. The focus of TOD's training is on the use of electronic surveillance equipment, digital imaging, video evidence recovery, and the seizure and analysis of digital evidence stored on computers, computer servers and mobile devices.

- **Driver and Marine Division:** This division plans, develops, and presents formal training courses and practical exercise applications related to the specialized nature and use of vehicles and vessels, including search techniques and operational procedures in a law enforcement environment. This division is also responsible for the special use equipment and facilities assigned to these specific training areas.

- **Counterterrorism Division:** This division plans, develops, and presents formal training courses and practical exercise applications related to anti-terrorism, counter-terrorism, and physical security.

- **Training Innovation and Management Directorate:** Consisting of two major subordinate offices, the Office of Training Management and the Office of Training Support, this directorate provides consistent allocation, management and coordination of training programs, promotes the innovative enterprise-wide development and application of training technology, and facilitates the integration of training activities with emerging technologies.

  - **Office of Training Management:** This office provides oversight to three divisions.

    - **Evaluation and Analysis Division:** This division provides institutional research, consultation services, student evaluation and testing, and program validation studies.

    - **Training Management Division:** This division provides administrative assistance, including the coordination of advanced training activities; serving as the repository for lesson plans, syllabi, class reports, and student performance records; developing optimal scheduling plans to meet training requirements; and developing both long and short range plans for training operations.

    - **Training Resource Coordination Division:** This division provides training logistical support, including the scheduling of training programs, activities, and facilities.

  - **Office of Training Support:** This office provides services and materials that most directly relate to the training mission. It consists of the following three divisions:

- **Training Innovation Division:** This division identifies, researches, and evaluates emerging technology for application in law enforcement training.

- **Media Support Division:** This division provides a full range of media and graphic arts services for all basic and advanced training activities including visual/media production, learning resource services, and printing/reproduction.

- **Student Services Division:** This division provides physical therapy, student recreation, and contractual support for health services, lodging, meals, student records maintenance, and other contractual services.

- **Field Training Directorate:** This directorate provides oversight of Federal and non-Federal field training functions and management of the FLETC's field training sites in New Mexico, Maryland, and South Carolina.

  - **Office of Artesia Operations:** This office administers the delivery of law enforcement training programs in Artesia, New Mexico, hosts the U.S. Border Patrol Academy, and manages all logistical and support activities for Artesia, including various contractual services for lodging, food, base maintenance and other support services.

  - **Office of Cheltenham Operations:** This office administers the delivery of law enforcement training programs in Cheltenham, Maryland and manages all logistical and support activities for its operation.

  - **Office of Charleston Operations:** This office administers the delivery of law enforcement training programs in Charleston, South Carolina.

- **Administration Directorate:** This directorate plans, directs and coordinates the FLETC's administrative programs and objectives. It formulates policies and courses of action for programs, which include staffing requirements, administrative services, human resources, procurement, property management, facilities management, environmental and safety program management and the Critical Incident Stress Management Program. The two major offices within the directorate consist of the Assets Management and Operations Support.

  - **Office of Assets Management:** This office provides managerial oversight to three divisions for the regulatory environmental compliance and risk exposure, acquisition, management, and disposal of assets

    - **Environmental and Safety Division:** This division administers the environmental and safety program for the agency and ensures compliance with the applicable environmental and safety laws and regulations.

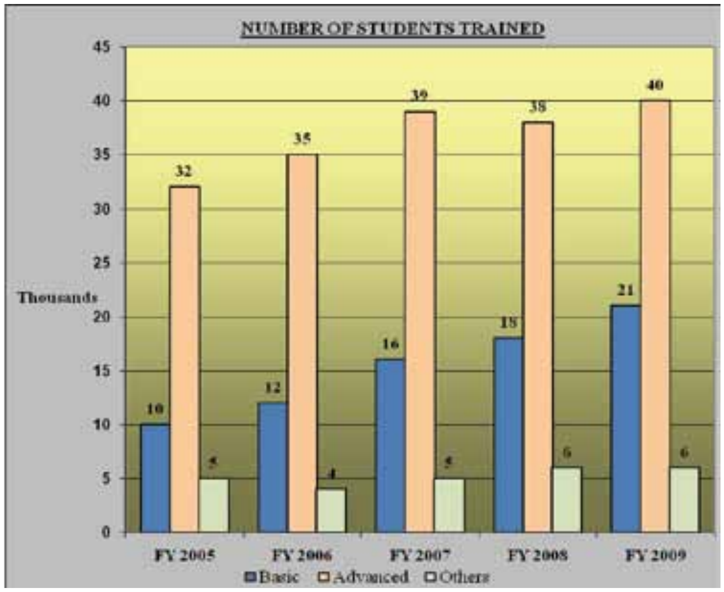
    - **Procurement Division:** This division develops and administers the procurement and contracting program at the FLETC.

    - **Property Management Division:** This division plans and directs the overall property management program including real property and non-expendable personal property at the FLETC.

    - **Human Resources Division:** This division develops and administers the human resources policies and programs at the FLETC and also conducts workforce and organizational assessments, workforce structuring and planning, studies and analysis, external marketing and diversity programs, and employee development programs.

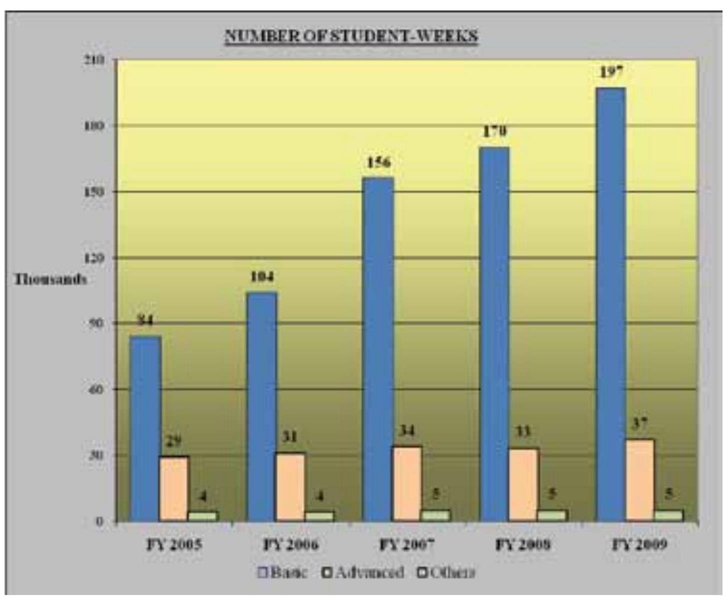
Workload Statistics

Number of Students Trained FY 2005 – FY 2009



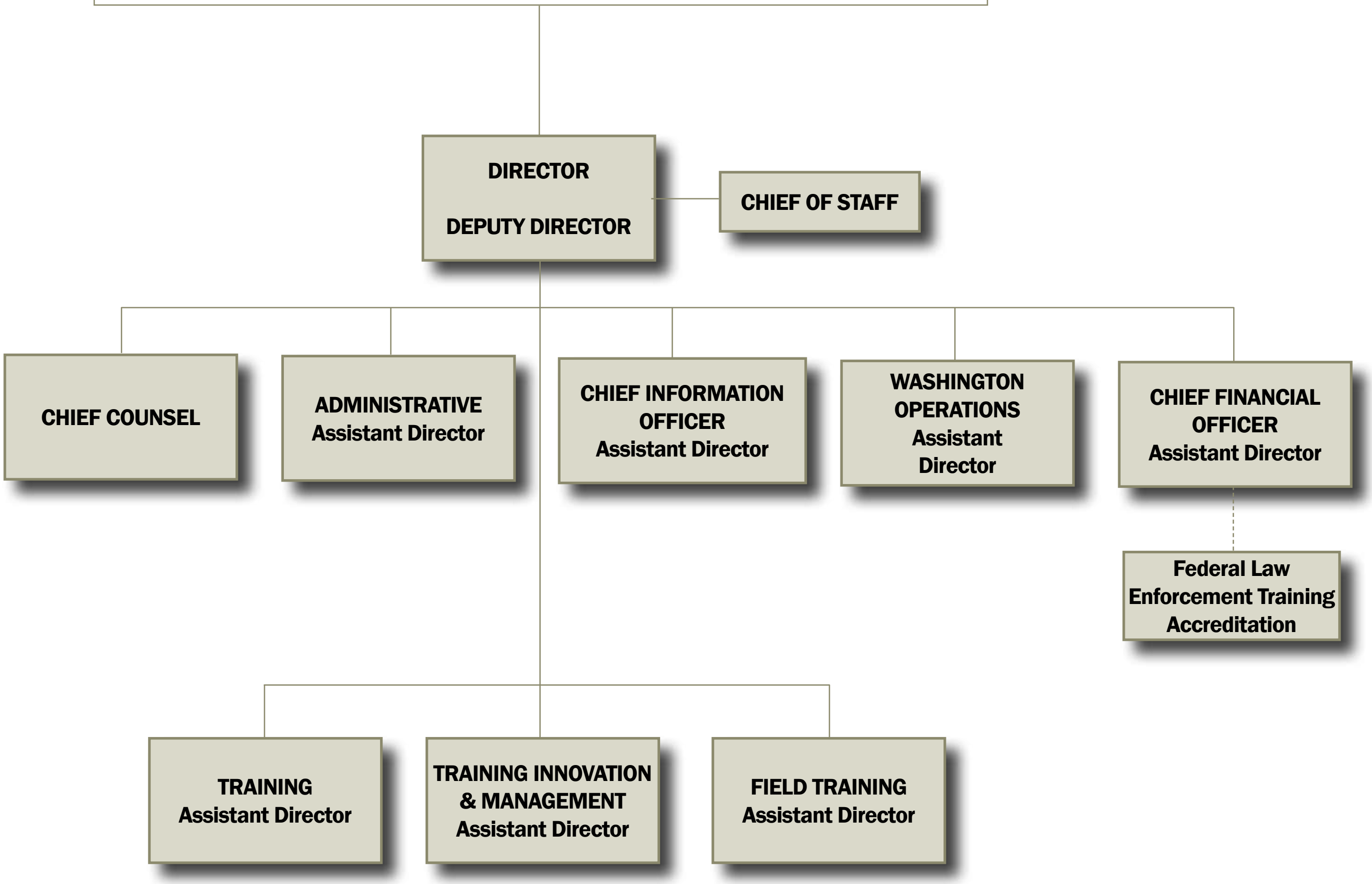
The number of students trained has grown consistently over the past five years. The number of students in FY 2009 is approximately 67 thousand, an increase of 5 thousand, or 8%, from FY 2008, and by 20 thousand, or 41%, since FY 2005.

Number of Student-Weeks of Training FY 2005 – FY 2009



Student-weeks in FY 2009 were approximately 239 thousand, which represents an increase of 31 thousand, or 14%, over FY 2008. A large part of the training increase was in support of the Secure Border Initiative.

Federal Law Enforcement Training Center
Approved: January 29, 2007



Training Conducted by Site and Category – FY 2009

CATEGORY	STUDENTS	STUDENT-WEEKS	ARSP *	PERCENT OF TOTAL STUDENT-WEEKS
GLYNCO				
Basic	13,367	122,251	2,351	51.2%
Advanced	9,715	13,529	260	5.7%
State & Local	330	594	11	0.2%
Subtotal	23,412	136,374	2,622	57.1%
ARTESIA				
Basic	6,186	67,021	1,289	28.1%
Advanced	2,790	4,084	79	1.7%
State & Local	58	67	1	0.0%
Subtotal	9,034	71,172	1,369	29.8%
CHARLESTON				
Basic	832	4,635	89	1.9%
Advanced	7,972	14,048	270	5.9%
State & Local	247	524	10	0.2%
Subtotal	9,051	19,207	369	8.0%
CHELTENHAM				
Basic	583	3,469	67	1.5%
Advanced	17,952	3,393	65	1.4%
State & Local	240	76	1	0.0%
Subtotal	18,775	6,938	133	2.9%
EXPORT				
Advanced	1,900	1,580	30	0.7%
State & Local	4,158	2,664	51	1.1%
International	914	833	16	0.3%
Subtotal	6,972	5,077	97	2.1%
RECAP				
Basic	20,968	197,376	3,796	82.7%
Advanced	40,329	36,634	704	15.3%
State & Local	5,033	3,925	74	1.6%
International	914	833	16	0.3%
Total	67,244	238,768	4,590	100.0%

* Average Resident Student Population

Training Conducted by Site and Category – FY 2008

CATEGORY	STUDENTS	STUDENT-WEEKS	ARSP *	PERCENT OF TOTAL STUDENT-WEEKS
GLYNCO				
Basic	12,224	105,704	2,033	50.7%
Advanced	7,722	11,451	220	5.5%
State & Local	291	590	11	0.3%
Subtotal	20,237	117,745	2,264	56.5%
ARTESIA				
Basic	5,267	61,042	1,174	29.3%
Advanced	1,841	2,344	45	1.1%
State & Local	14	12	-	0.0%
Subtotal	7,122	63,398	1,219	30.4%
CHARLESTON				
Basic	383	2,358	45	1.1%
Advanced	7,039	13,381	257	6.4%
State & Local	248	811	16	0.4%
Subtotal	7,670	16,550	318	7.9%
CHELTENHAM				
Basic	414	1,161	22	0.6%
Advanced	19,067	3,386	65	1.6%
State & Local	204	143	3	0.1%
Subtotal	19,685	4,690	90	2.3%
EXPORT				
Advanced	2,464	2,431	47	1.2%
State & Local	3,412	2,436	47	1.2%
International	1,243	1,106	21	0.5%
Subtotal	7,119	5,973	115	2.9%
RECAP				
Basic	18,288	170,265	3,274	81.7%
Advanced	38,133	32,993	634	15.8%
State & Local	4,169	3,992	77	1.9%
International	1,243	1,106	21	0.5%
Total	61,833	208,356	4,006	100.0%

* Average Resident Student Population

The FLETC provided 238,768 student-weeks of training to 67,244 law enforcement agents and officers during FY 2009. Of the total student-weeks, 83% and 15% were attributed to the basic and advanced training programs, respectively.

Fiscal Year 2009 HIGHLIGHTS

Training Initiatives

- Developed a new proposed Center Advanced program Recovery of Evidence from CCTV Video Recordings.

- Piloted the Center Advanced Investigation of Complex Archeological Resources Crimes Program.

- Developed and fielded an enhanced content, reduced footprint Center Advanced Protective Security Operations Training Program (PSOTP) for the interagency protective operations community. The PSOTP is one of two recognized law enforcement training programs meeting initial training requirements for law enforcement officers being assigned this duty.

- Supported the proposed Advanced Interviewing for Criminal Investigators Training Program, Fundamentals of Terrorism Training Program, and the Law Enforcement Fitness Coordinator Training Program and held meetings to discuss potential curriculum changes to the Use of Force Instructor Training Program.

- Upgraded the Advanced Use of Force Training System with state of the art, innovative, simulation-based decision making use of force training platform that incorporates computer generated imagery with speech recognition.

- Integrated the desktop simulation, Canadian Forces Direct Action, into add-on training conducted by the Bureau of Alcohol, Tobacco, Firearms and Explosives. Also, coordinated the development of the Terrorism Indication Prevention simulation.

Training Support

- Developed a new training delivery system, the FLETC TV, using FLETC's state-of-the-art television studio to deliver webcast and television productions.
- Conducted Curriculum Review Conferences for the flagship basic Criminal Investigator Training Program, Land Management Police Training (LMPT), and Law Enforcement Instructor Training Program and held quarterly curriculum advisory committee meetings with Partner Organizations (PO).
- Established formal liaisons with the National Counterterrorism Center, the National Joint Terrorism Task Force, the Defense Intelligence Agency Joint Military Intelligence Training Center, and the Federal Bureau of Investigation Academy Intelligence Section and the Behavioral Science Unit.
- Met with the leadership of five other federal law enforcement training academies, including the U.S. Secret Service, Federal Bureau of Investigation, Drug Enforcement Administration, Diplomatic Security Service and the US Postal Inspection Service to discuss best training practices and learning improvements.
- Hosted meetings with the Futures Working Group and the Police Futurist International and a conference for Driver Simulator Users and presented at various national conferences, including the International Association of Chiefs of Police, National Organization of Black Law Enforcement Executives, and Department of Defense Cybercrimes.
- Certified ten members of the Jacksonville Sheriff's Office (JSO) in a Train-the-Trainer leadership session. JSO will partner with FLETC in future leadership training programs and provide law enforcement leadership case studies.
- Completed the accreditation assessment for the Law Enforcement Control Tactics Instructor Training Program, which along with the Boat Operators Anti-Terrorism Training Program, Marine Law Enforcement Training Program and Law Enforcement Driver Instructor Training Program, will all be before the FLETA Board for re-accreditation in FY 2010.
- Added two new POs, bringing FLETC's total POs to 89, developed a new sponsorship program and fielded senior FLETC managers to serve as sponsors for new PO representatives, implemented an orientation program for new PO representatives and updated the PO website to include FLETC field site information and contacts.
- Completed a Continuing Education Unit Feasibility Study.
- Received re-accreditation of the Law Enforcement Instructor Training Program from the FLETA Board.
- Commissioned a comprehensive Assigned Posts of Duty for FLETC students to better gauge training resource allocations and trends.
- Through an Inter-Agency Agreement (IAA) with OPM, implemented a secure, enterprise-wide Electronic Learning Portal (ELP) that will play a significant role in addressing the needs of state, local and tribal police agencies, many with limited resources.
- Led the FLETC Survival Scores Research Project that analyzes the effectiveness of scenario based training by identifying how students translate their knowledge into actions and integration of driver training simulators into the LMPT, which provides students with more hands-on instruction and reduced lecture and down time.
- Through an IAA with the Army's Program Executive Office for Simulation Training and Instrumentation in Orlando, Florida, leveraged a $367,000 FLETC investment to take advantage of a multi-million dollar

investment by the Army in training technology. Also, leveraged with the Department of Defense to create a simulation for the Maritime Division Course and the Security Antiterrorism Training Program conducted at the Charleston site.

- Entered into Cooperative Research and Development Agreements with Lockheed Martin Corporation and the University of Central Florida and implemented a similar agreement with the Washington State University.

- Completed a successful testing of the Student Administration and Scheduling System (SASS) operational capability to schedule classes, publish classes for student registration, assign lodging for students and create data for the training bills.

Training Venues

- Opened the new specialized Technical Operations Training Facility in June 2009.

- Constructed two new Situational Response Houses consisting of four bay training areas to support the revised Situational Response and Weapons Handling Drills that were piloted and implemented into the FLETC flagship basic training courses Uniform Police Training, Criminal Investigator Training, and Land Management Training Programs.

- Completed design of the Intermodal Terminal Complex for the Counter-Terrorism Operations Training Facility.

Field Training

- Completed the training of over 9,000 new law enforcement recruits for the Secure Border Initiative which began with the move of the U.S. Border Patrol Academy to Artesia, NM in FY 2004 with the number of students trained at the FLETC Office of Artesia Operation (OAO) increasing each year, as much as 75% from FY 2006 to FY 2007.

- Developed and implemented training programs that address the needs of small rural law enforcement agencies and first responders in January 2009 in support of the Rural Policing Institute. The FLETC OAO served as the primary training venue. The OAO completed 18 programs training over 250 students across the country, including classes in Indiana, Florida, Kansas, Michigan, and Alaska.

- Completed numerous construction projects, including the new roof on the aquatics facility, extension of sewer along 13th Street and addition of sewer to the Firearms/Driving Range, pavement of roads to the northern portion of the main campus and the 4-wheel drive range, and upgrade to the Early Warning System in Artesia, NM. At Charleston, SC, eight former naval barracks were demolished to make way for the construction of a new 400-bed single occupancy dormitory. Also, groundbreaking occurred for the new Charleston, SC Physical Techniques Complex and a Visitor Control Center and Commercial Vehicle Inspection site. The construction of a new auditorium and tactical training area in Cheltenham, MD started in FY 2009.

- Conducted 12 Curriculum Review Conferences and Working Group meetings in FY 2009.

- Revised the previous Law Enforcement Spanish Training Program and renamed the Law Enforcement Survival Spanish Training Program (LESSTP). The program was established to assist the Alcohol, Tobacco, and Firearms (ATF) in their efforts along the United States/Mexico border. OAO held two classes for the ATF during fiscal year 2009.

- Coordinated with the U. S. Coast Guard (USCG) in formulating and developing the Marine Enforcement Basic Training Program, the USCG's first basic program. The Office of Charleston Operations (CHS) will pilot the class in FY 2010 in Charleston, SC.

- Coordinated with the U.S. Naval Weapons Station in securing approximately 80 acres of forested land to provide a training venue for the United States Forest Service Drug Enforcement Training Program (DETP). CHS will conduct the first DETP iteration in FY 2010.

- Developed a driver training program to address MD11015 (Operating Vehicles Equipped with Emergency Signaling Devices), primarily for the Federal Air Marshals and a four-day driver training program for the Federal Bureau of Investigation, Special Operations Group. The Office of Cheltenham Operations (CHE) conducted three classes in FY 2009.

- Implemented the "Early Bird Range" for law enforcement officers to complete firearms requalification early in the morning before their shift begins, or after completing the midnight shift and the Thursday "Walk-on Range" for law enforcement officers who otherwise were not able to qualify with their agencies, at CHE.

- Brought on-board the first hire from the Wounded Warrior recruitment program at CHE.

- Piloted a new Center Basic Program, the Infrastructure Protection Officer Training Program at CHE.

International Law Enforcement

- In May 2009, FLETC staff attended the introductory affiliates meeting for the Organization of Security Operation in Europe (OSCE), Border Management Staff College in Vienna, Austria with several country representatives from the region, OSCE and United Nations representatives, as well as representatives from other U.S. agencies. During the meeting, the OSCE requested FLETC join the Academic Advisory Board for the Border Management Staff College, which is still in the formative stages.

- FLETC was selected by the ILEA Policy Board to staff the position of Deputy Director, who will assist in providing management direction for the International Law Enforcement Academy (ILEA) Bangkok. The individual selected is scheduled to assume his duties at ILEA Bangkok in November 2009.

- Delivered training programs in Malaysia, Botswana, Netherlands, Romania, Uganda, and Ukraine. Additionally, 29 international students attended FLETC training programs at sites in the U.S.

- At the request of the U.S. Embassy Kyiv, FLETC assigned a permanent Regional Training Advisor to assist the Ukraine State Border Guard Service reform their training system.

- In October 2008, the FLETC Director and key staff participated in the Drug Enforcement Administration and Department of Defense Pacific Command Joint Interagency Task Force – West, International Narcotics Enforcement Management Seminar with country representatives from the Far East region. In her speech at the seminar, the FLETC Director focused on common training problems and solutions for law enforcement.

- Senior FLETC staff served on the International Police Division Steering Committee (IPDSC) Advisory Committee.

Office of State and Local

- Partnered with the Navy Criminal Investigative Service in presenting several Cold Case Seminars that accounted for nearly 300 participants at each major regional initiative.

- Convened a meeting in Glynco, Georgia with participants representing a broad spectrum of Tribal law enforcement stakeholders to review existing tribal law enforcement (TLE) training programs and to determine how the Rural Policing Institute (RPI) could best provide training assistance to the TLE community.

- In conjunction with RPI, FLETC is partnering with the Office of Community Oriented Policing Service (COPS) and the Bureau of Justice Assistance (BJA) at DOJ to implement a national training needs assessment, beginning in FY09 and continuing through FY13, which includes a longitudinal study with

validation of training outcome measures. The FLETC continues to work the "intelligence led policing" aspect with appropriate Federal agencies. Also, FLETC convened a focus group of stakeholders on intelligence-led policing and conducted a curriculum development conference. The FLETC website, http://www.fletc.gov/state-and-local/rural-policing-institute/ provides instant access to information about RPI training schedule and online registration.

Administrative Support

- Coordinated a successful, first ever, enterprise-wide, Telework Contingency Exercise involving the mobilization of over 100 employees with their logistical and labor issues to work from home on two separate days.

- Implemented innovative meal service, "On the Go", that reduced student wait in-line time. Also, new and creative healthy meal offerings were developed, which increased student participation from 60% to 90%.

- Opened a new health unit facility at Glynco providing a modern, robust and consolidated venue for delivery of health services.

- Successfully developed a joint organizational effort to create a pilot CCTV Channel 98 "learning channel".

- Administered over $122M construction contracts involving approximately 100 construction and renovation projects throughout FLETC sites.

- Established the FLETC Energy Guidelines for Building Construction and the Energy Conservation Working Group and completed renovation of the first FLETC facility to meet the Leadership in Energy and Environmental Design (LEED) by meeting energy efficient lighting, better insulation, water reduction devices, storm water runoff plan, green space, waste reduction and special concrete for the parking lot.

- Fielded the Facility Asset Management System and completed assessments at Artesia, Charleston, and Cheltenham.

- Rolled out the Electronic Official Personnel File (E-OPF) to all employees. Also, a full scope audit of all GS-1801 instructors was completed in FY 2009.

- Implemented numerous IT projects that enhanced and supported the delivery of training to partner organizations and other customers. Some of these projects include establishing the Microsoft Office SharePoint Server, researching distance learning solution and learning management systems, installing wireless internet access, researching E-reader alternatives, implementing Channel 95, implementing virtual badging system, and installing numerous IT infrastructure acquisitions and upgrades.

Other Accomplishments

- The FLETC Strategic Planning and Analysis Division implemented the FLETC Investment Management System (FIMS) in FY 2009. The system integrates organizational and mission goals, strategic planning, budgeting, procurement, facilities management, IT management and project management. It is a tool used for the investment decision-making process to effectively manage FLETC investment requests equal to or greater than $100K.

- The FLETC Environmental and Safety Division received the Office of the Federal Environmental Executive (OFEE) Gold award for its participation in the OFEE Federal Electronics Challenge, a program designed to promote electronics management among Federal agencies.

- The FLETC Procurement Division received the DHS Competition and Acquisition Excellence Award for increasing competition, the DHS Office of Small and Disadvantaged Business Utilization (OSDBU) recognition for meeting or exceeding all FY08 small business goals, and a special DHS OSDBU recognition for being the first DHS component to achieve an annual Service Disabled Veteran Owned Small Business contract award goal.

- The FLETC Property Management Division received the Electronics Recycling and Reuse Campaign (ERRC) Award for a Medium-sized Civilian Facility, Federal Mail Center Excellence Award for Best Practices for Innovation in Federal Mail Communication, Miles Romney Achievement Award for Innovation in Personal Property Management, and Gold Star Award for Excellence in Implementing Federal Computers for Learning Program.

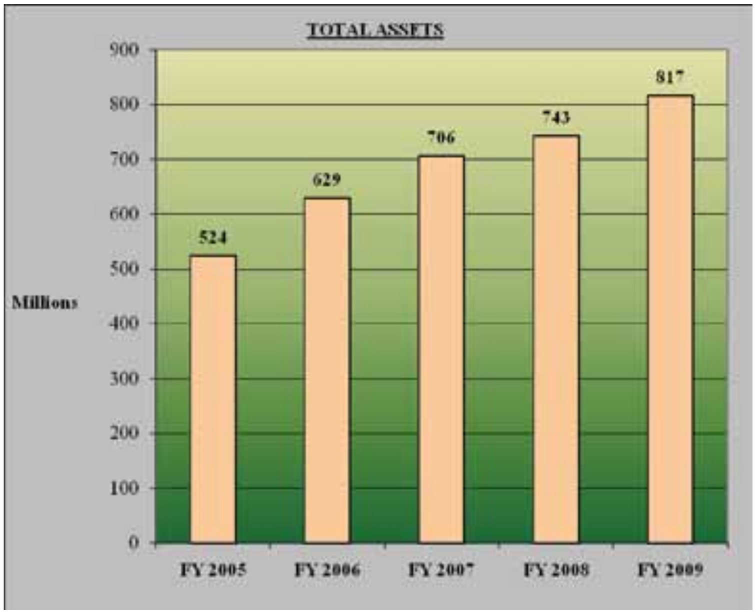
- Received an unqualified (clean) opinion during the FY 2008 financial audit.

Analysis of the FLETC's Financial Statements

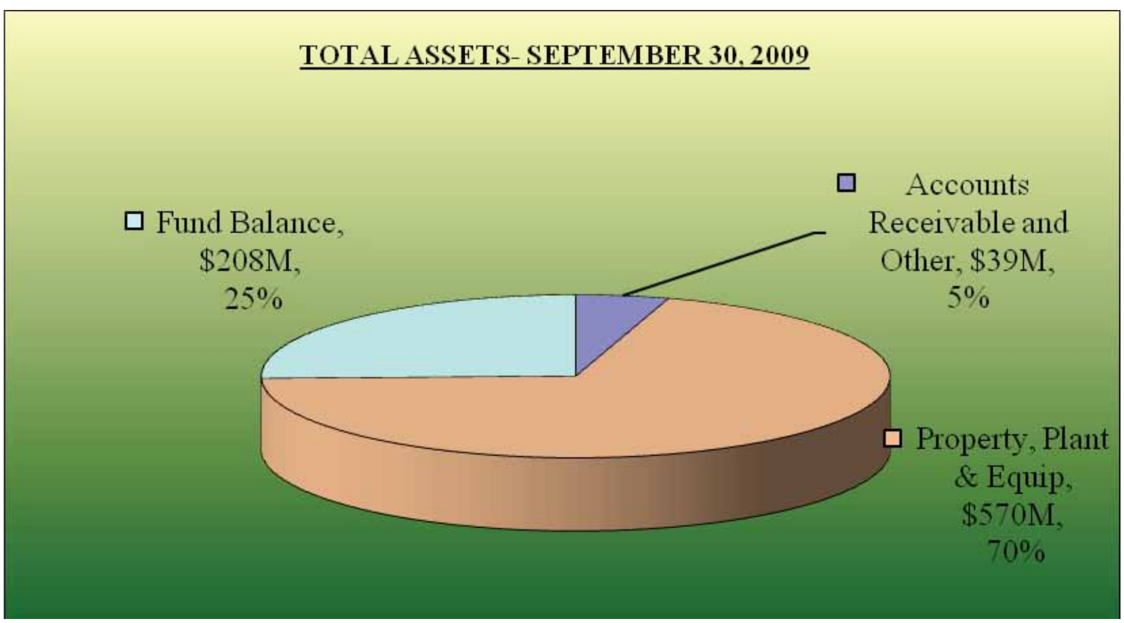
The FLETC's financial statements appear in Part II with notes to the financial statements and required supplementary information. This section includes key financial data relevant to the FLETC operations.

Financial Resources and Key Indicators

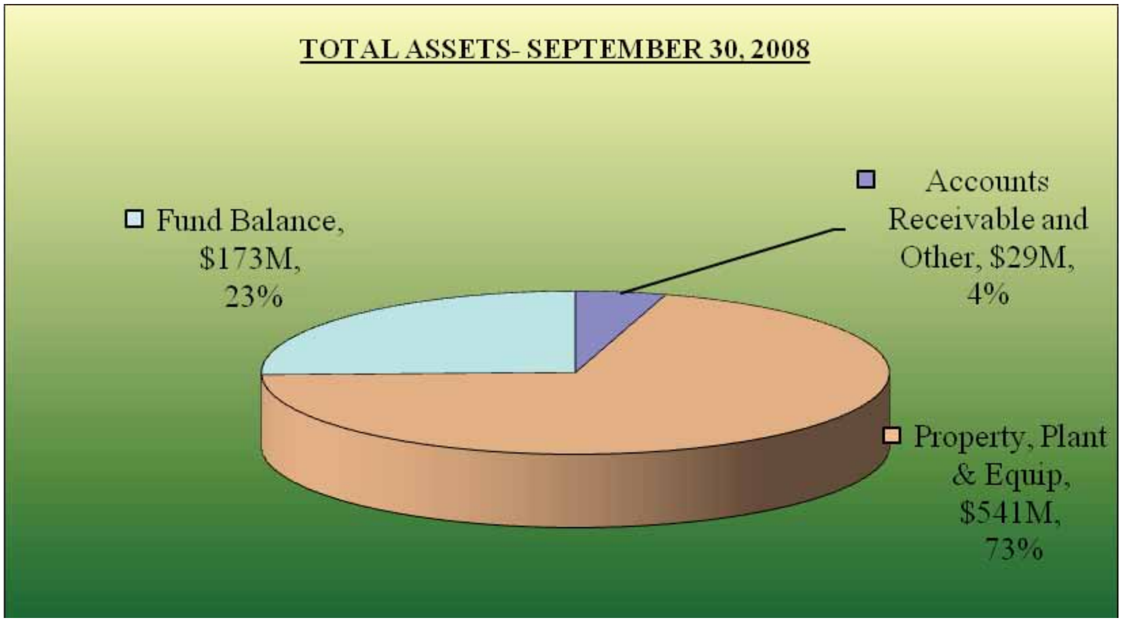
Assets



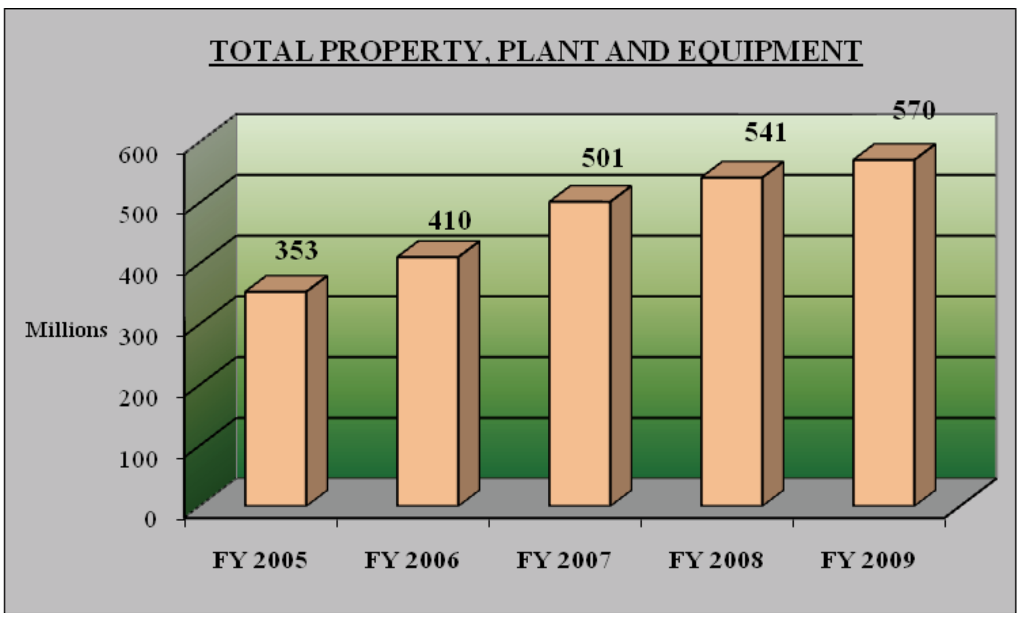
As of September 30, 2009, the FLETC had total assets of $817 million, an increase of 10%, or $74 million over September 30, 2008 assets of $743 million. The increase is primarily due to the capitalization of costs of construction projects.



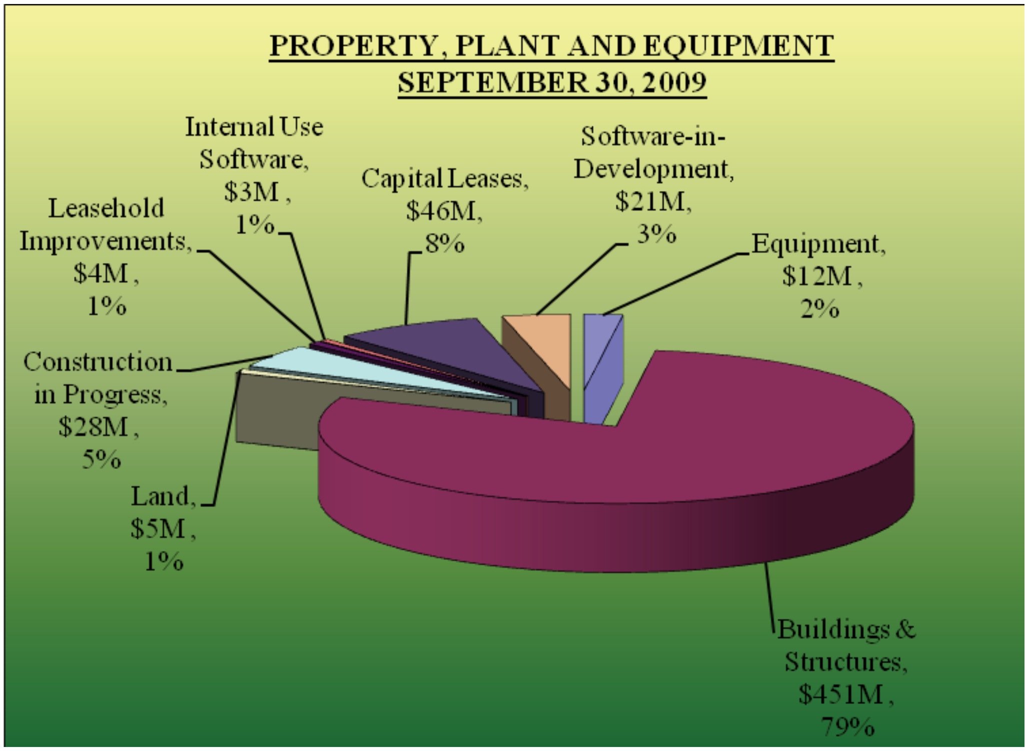
The majority of the FLETC's assets are comprised of plant, property, and equipment (PP&E) and Fund Balance with Treasury, totaling $570 million and $208 million, respectively, as of September 30, 2009.



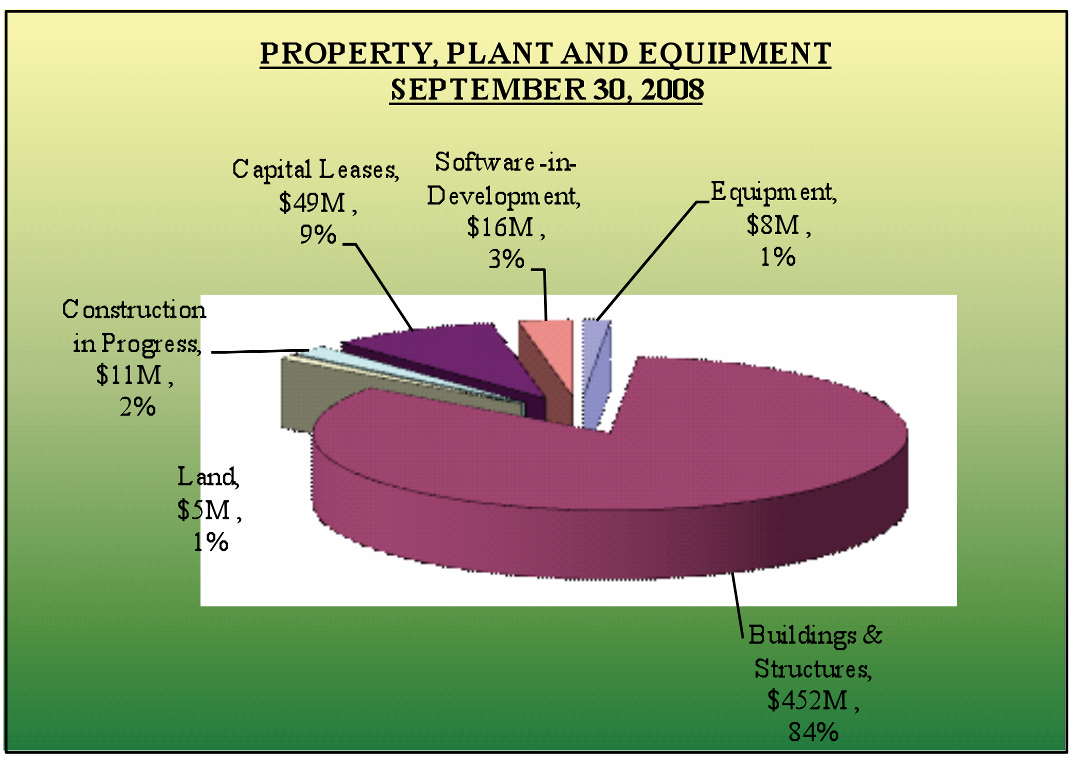
Property, Plant, and Equipment



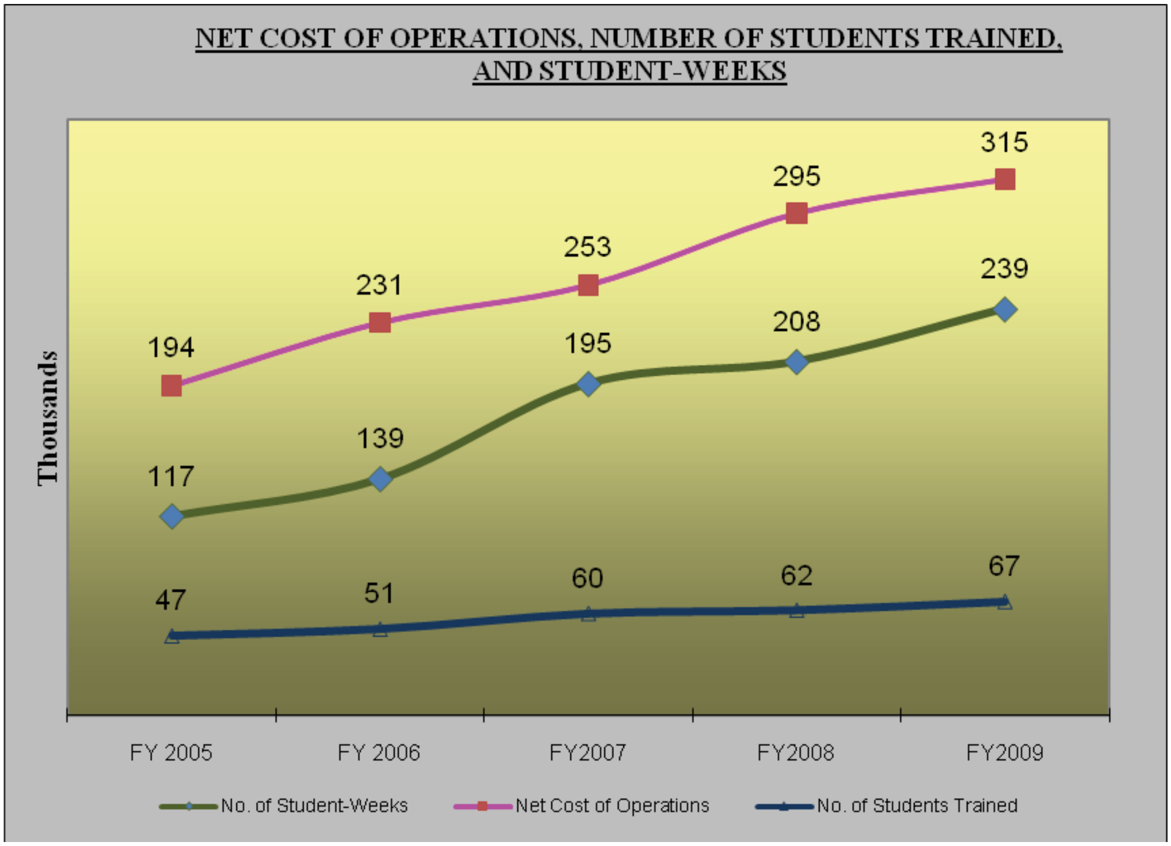
The FLETC's net PP&E balance is $570 million as of September 30, 2009, an increase of $29 million, or 5%, from September 30, 2008. The increase is primarily due to ongoing facility construction and building renovations, including new training facilities and dormitories, as well as ongoing costs for an internally-developed software project.



The majority of the FLETC's PP&E accounts are buildings and structures with a net book value of $451 million as of September 30, 2009. The net assets under a capital lease represent $46 million as of September 30, 2009.



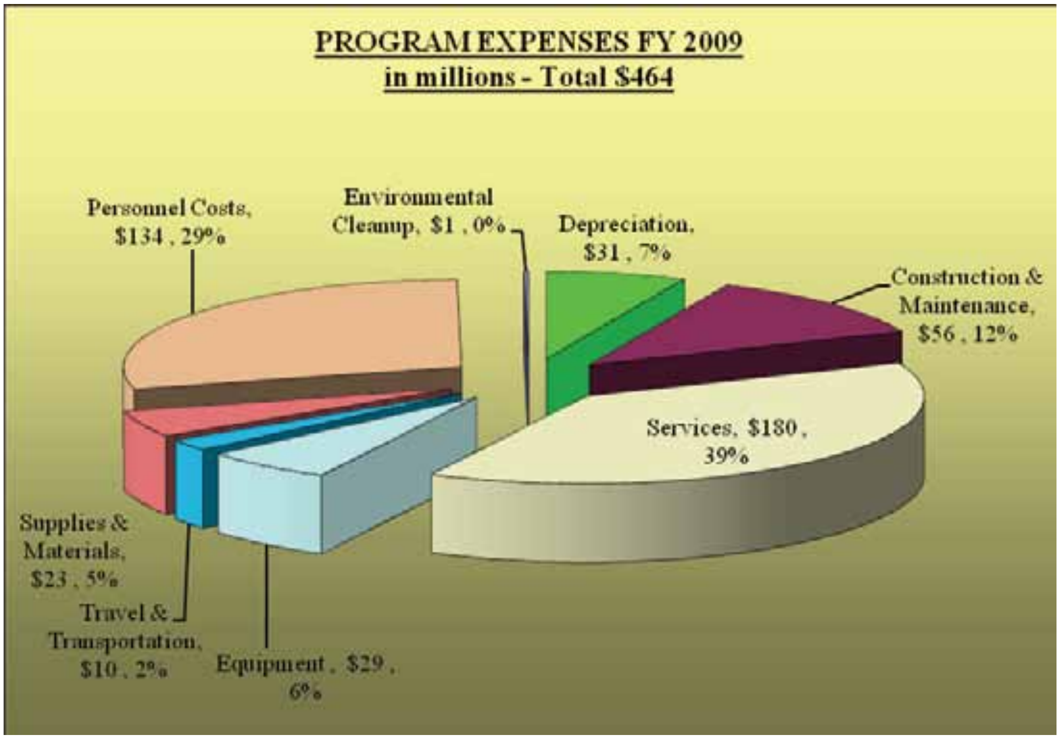
Net Cost of Operations



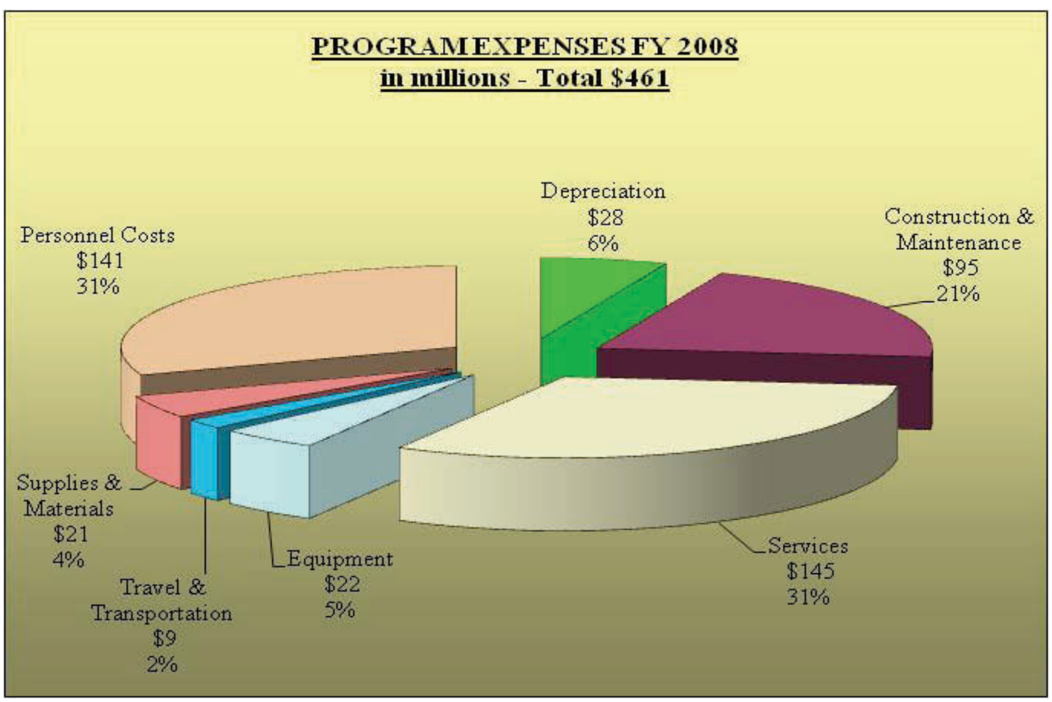
The FY 2009 net cost of operations increased by $20 million, or 7%, from last fiscal year's net cost, primarily due to an increase in the number of students and student-weeks trained. The number of students trained and number of student-weeks increased by 8%, or 5 thousand students, and by 14%, or 31 thousand student-weeks, respectively, from FY 2008. The increases were primarily due to higher law enforcement training requirements, particularly for U.S. Customs and Border Protection.

Program Expenses

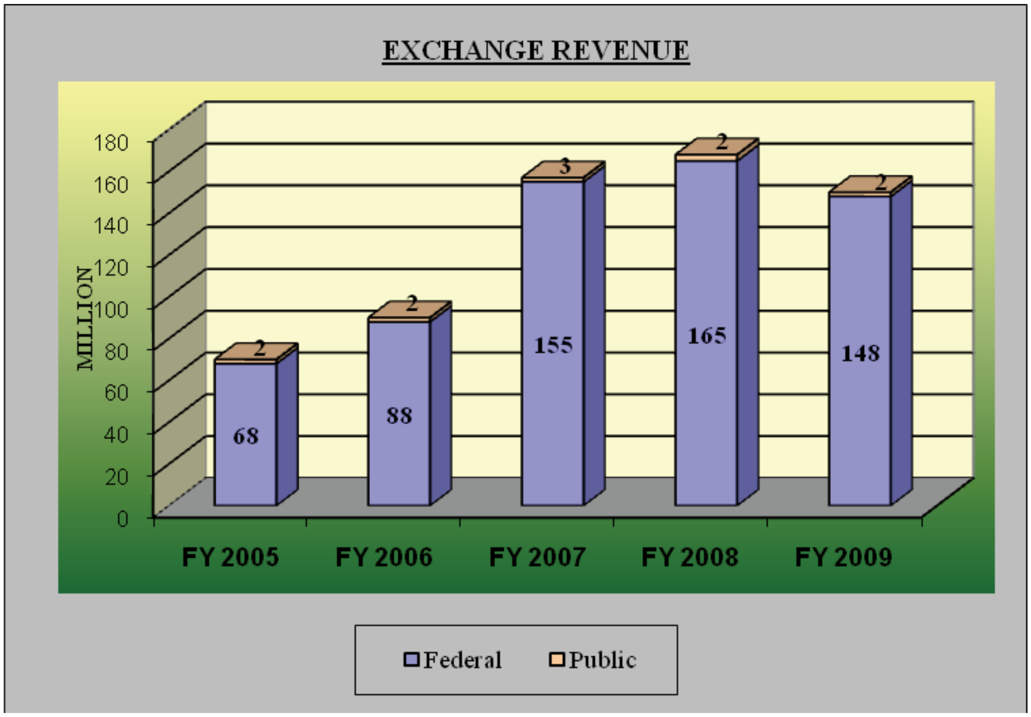
The breakdown of the FLETC's program expenses by major budget object classes are presented below.



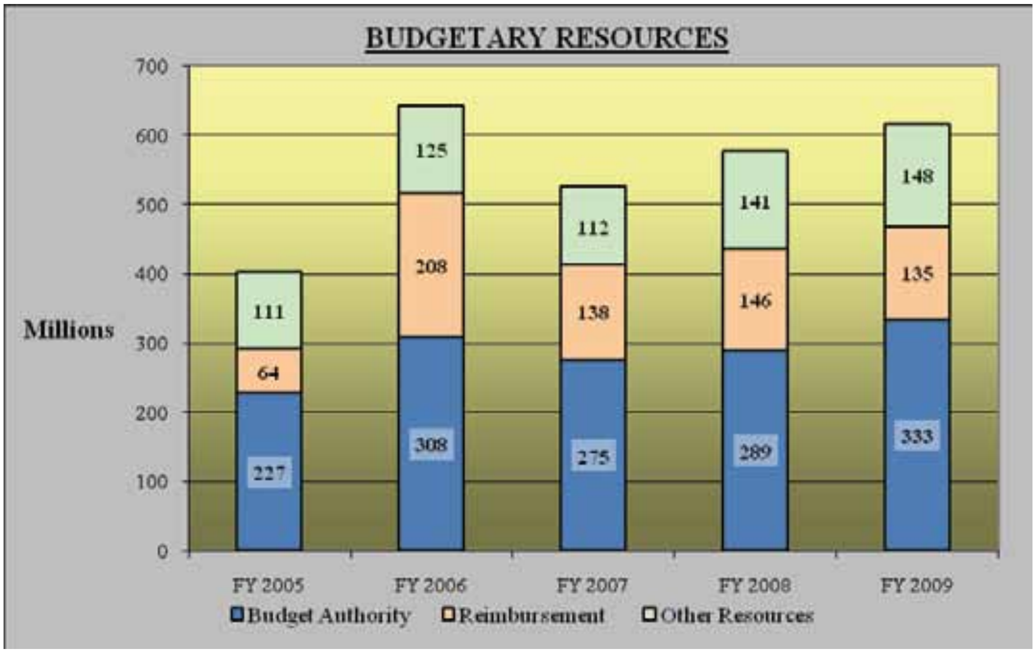
The FLETC incurred $464 million of gross program expenses in FY 2009, compared to $461 million of gross program expenses in FY 2008. Personnel Costs and Services represent the largest categories of expenses at 29% and 39%, respectively, in FY2009 and both at 31% in FY2008.



Exchange Revenue



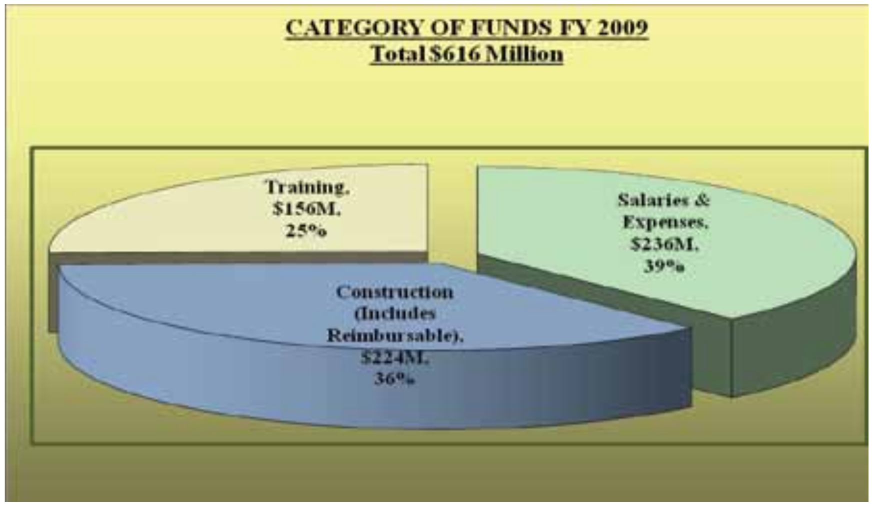
For the year ended September 30, 2009, the total exchange revenue amounted to $150 million, of which $148 million and $2 million were derived from Federal agencies and state and local agencies, respectively. The exchange revenue decreased by 10%, or $17 million, from FY 2008 revenue of $167 million, primarily due to decreased reimbursement by Partner Organizations for construction and renovation of facilities.



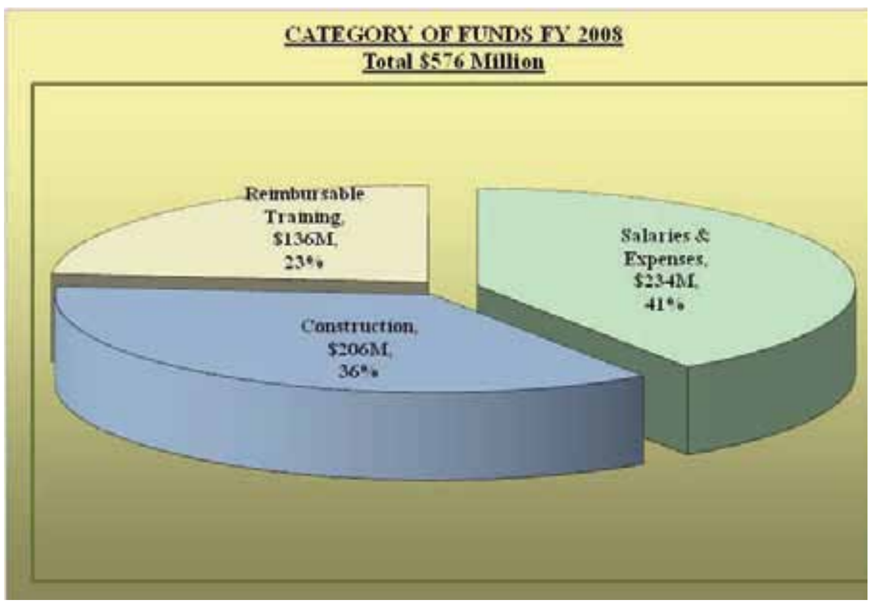
Budgetary Resources

Budgetary resources consist of the budget authority or annual appropriations, reimbursement for training services, and other resources comprised primarily of carryover funds for multi-year and no-year appropriations. The FLETC's budgetary resources have generally increased throughout the past five years, with FY 2006 representing the highest amounts for additional facilities to be built in support of increased U.S. Border Patrol training. Appropriations for the year ended September 30, 2009 increased by $44 million, or 15%, from the prior year, to $333 million.

Category of Funds

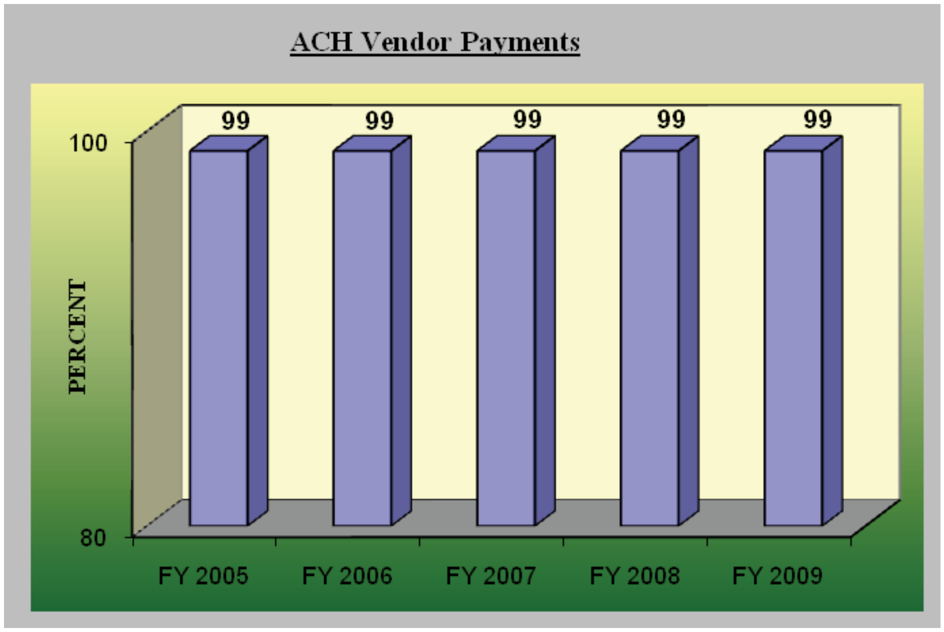


Of the $616 million of total budgetary resources in FY 2009, 39%, or $236 million, was for salaries and expenses; 36%, or $224 million, was for appropriated and reimbursable construction; and 25%, or $156 million, was for training.



Of the $576 million of total budgetary resources in FY 2008, 41%, or $234 million, was for salaries and expenses; 36%, or $206 million, was for appropriated and reimbursable construction; and 23%, or $136 million, was for reimbursable training.

Automated Clearing House (ACH) Vendor Payments



ACH vendor payments continue to be maximized in FY 2009. ACH is an expeditious, cost-effective payment method that enhances accuracy and customer service to vendors.

Analysis of Systems, Controls and Legal Compliance

To assist with DHS' compliance with the provisions of the Federal Managers' Financial Integrity Act of 1982 (FMFIA); the Federal Financial Management Improvement Act of 1996 (FFMIA); and the Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control," revised December 2004, the FLETC Director must provide annual assurance statements to DHS regarding FLETC's management and financial system controls, internal controls over financial reporting, and performance data reliability regarding activity that is significant at the DHS Consolidated level. Any material weaknesses or deficiencies are reported to DHS in these annual assurance statements. Information for these assurance statements is derived from GAO and DHS OIG reviews, independent audits, and self-assessments provided by FLETC management.

Federal Financial Management Improvement Act (FFMIA)

FFMIA instructs agencies to maintain an integrated financial management system that complies with Federal system requirements, Federal Accounting Standards Advisory Board standards, and the U.S. Standard General Ledger at the transaction level. Although FLETC has made significant improvements toward compliance, it cannot claim full compliance because of deficiencies related to Federal accounting standards and financial management systems.

Federal Managers' Financial Integrity Act (FMFIA)

In accordance with FMFIA and OMB Circular A-123, FLETC has evaluated its management controls and financial management systems for the FY ending September 30, 2009. Through its annual self-assessment process and GAO and OIG reviews for FY 2009, FLETC is reporting two material weaknesses, i.e., financial reporting and information technology (IT) general and security controls. As noted in the Independent Auditors' Report, four control deficiencies relating to environmental liabilities, imputed costs and financial reporting process, allowance for doubtful accounts, and PP&E, which in aggregation, are considered a material weakness in internal controls over financial reporting. The material weakness in IT general and security controls involves access controls, configuration management, and security management.

Legal Compliance

The FLETC is committed to ensuring its financial activities are carried out in full compliance with applicable laws and regulations. To ensure this responsibility is met, senior agency financial managers direct annual reviews of financial operations and programs compliance with applicable laws and regulations. For FY 2009, the FLETC complied substantially with all laws and regulations considered material to internal control over financial reporting.

Anti-Deficiency Act (ADA) 31 U.S.C. Section 1341(a)(1)

The result of a DHS OIG review of the remaining two dormitory leases in FY 2009 has identified that FLETC was not in violation of the ADA. For budget scoring purposes in accordance with OMB Circular A-11, the DHS OIG has determined that the two build-lease arrangements are operational leases.

Management Assurances

In accordance with the Department of Homeland Security Financial Accountability Act and the FMFIA, the FLETC has conducted an evaluation of its internal controls on September 30, 2009. Based on this evaluation, the following assurance statements are provided.

The FLETC Director's assurance statement letter was submitted to the DHS CFO to support the DHS Secretary's assurance statements. At the time of the submission of the FLETC's assurance statement letter to DHS on September 30, 2009, FLETC was unaware of any prevailing material weaknesses. Subsequently, as a result of the independent audit, FLETC is reporting two material weaknesses, namely, financial reporting and information technology general and security controls.

Federal Law Enforcement Training Center
U. S. Department of Homeland Security
1131 Chapel Crossing Road
Glynco, Georgia 31524

Homeland Security

September 30, 2009

Honorable Janet Napolitano
Secretary of the Department of Homeland Security
Washington, DC 20360

Dear Secretary Napolitano:

In accordance with your delegation of responsibilities to me, I have directed an evaluation of the internal controls at the Federal Law Enforcement Training Center (FLETC) in effect during the fiscal year ended September 30, 2009. This evaluation was conducted in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control*, Revised December 21, 2004. Based on the results of this evaluation, the FLETC may provide the following assurance statements.

Reporting Pursuant to FMFIA Section 2. 31 U.S.C.3512 (d)(2)

The FLETC provides reasonable assurance that internal controls are achieving their intended objectives, and no material weaknesses were found.

Reporting Pursuant to the DHS Financial Accountability Act. P.L. 108-330

The scope of FLETC's assessment of internal controls over financial reporting included performing tests of operational effectiveness throughout Fiscal Year 2009 and tests of design as of September 30, 2009 over the following financial management processes:

Tests of Operational Effectiveness and Design

- **Entity Level Controls – Control Environment, Risk Assessment, Information and Communication, and Monitoring**
- **Financial Systems Security - Information Technology General Controls and Application Controls**
- **General Ledger Management - Financial Reporting, including Environmental Cleanup Cost Liability**
- **Property Management – Acquiring, Accounting, and Inventory of Property**

Based on the scope of this assessment, the FLETC provides reasonable assurance that internal control over financial reporting was designed and/or operating effectively, and no material weaknesses were found in the internal controls over financial reporting.

www.fletc.gov

Reporting Pursuant to FMFIA Section 4. 31 U.S.C.3512 (d)(2)(B)

The FLETC's financial management systems conform with government-wide requirements.

Reporting Pursuant to the Reports Consolidation Act. Section 3516(e)

The FLETC provides reasonable assurance that the performance data used in the Department's Annual Performance Report are complete and reliable.

Respectfully,

Connie L. Patrick
Director

cc:
Elaine C. Duke, DHS Under Secretary for Management (USM)
Peggy Sherry, DHS Acting Chief Financial officer (CFO)

Other Management Information, Initiatives and Issues

The following chart summarizes the projections for law enforcement training for the next two years:

	FY 2010		FY 2011	
	Students	Student-Weeks	Students	Student-Weeks
Basic	18,619	146,520	18,990	149,450
Advanced	40,001	40,685	40,800	41,500
S&L, International & Export	7,969	5,366	8,130	5,470
Total	66,589	192,571	67,920	196,420

FUTURE EFFECTS ON EXISTING, CURRENTLY KNOWN DEMANDS, CONDITIONS, UNCERTAINTIES, RISKS, EVENTS, AND TRENDS

The FLETC continues to face operational constraints in balancing available resources and customer demands. To meet these challenges, the FLETC is implementing several initiatives to ensure its partner organization and other customers are provided with timely and cost-effective law enforcement training. A more secure homeland is the ultimate aim of the law enforcement training provided at the FLETC. The training is critical to enabling agencies to deploy properly trained officers and agents to protect our homeland. The FLETC will focus on expanding training programs through partnerships, emerging state-of-the-art training technology, sharing increased capacity in the most cost-effective manner using the consolidated law enforcement concept of training and providing federally accredited law enforcement training over the next five years.

The FLETC continues to experience increases in demand for its law enforcement training programs, resulting in corresponding demands for key FLETC facilities, technology, property, equipment, budget, and staff. In FY 2009, with a budget of $332.9 million, the FLETC provided training and re-qualification to over 67,000 law enforcement students (239,000 student weeks) from Federal, State and local and international law enforcement agencies. We have re-engineered business rules, leveled training assignments among the sites, and embarked on aggressive efforts to re-purpose some existing venues and to construct some additional facilities.

There are many challenges currently facing the FLETC. The FLETC continues to adapt its curricula to meet the emerging and critical needs of our PO, as well as State and local law enforcement entities, in preventing the introduction of high-consequence weapons of mass destruction, terrorism and other criminal activity against the U.S. and our citizens. The number of students trained during a fiscal year is more than double the number trained eight years ago.

The FLETC facilities requirements are based on Partner Organization training requests and the facilities needed to provide the training. The FLETC is currently modifying its Facilities Master Plan to provide for capacity associated with long-term training needs. The FLETC continues to explore and apply training alternatives such as the use of technology-based solutions, including computer modeling and simulation, Web-based training and computer based training in order to provide the most up-to-date training. The FLETC will aggressively seek funding to acquire, implement and maintain the physical resources outlined in the Facilities Master Plan. Also, the FLETC Investment Management System has been an effective approach in providing the FLETC with a standardized approach to selecting investments to fund, controlling the investment in terms of cost, performance, and schedule, and evaluating how well investments are delivering on project goals.

The FLETC is focusing on new business operations and training transformation initiatives that will better integrate classroom instruction and real-world situation and decision-making practical exercises with technology-based training. These initiatives will facilitate the transformation of our business processes by implementing new or improved approaches, methods, and delivery systems. The FLETC must consider blended training, distance learning, and modern tools for both instructors and students. Technologically-based resources are often the only practical means for supporting State and local law enforcement agencies, many of which are in rural communities that cannot afford to release officers for residential training. Our goal is to increase training effectiveness and efficiency, student output, and training safety through the use of business process transformation initiatives that will allow the delivery of select curricula through innovative and alternative delivery systems. This strategy enables the FLETC to leverage future investments in technology and continue providing the most effective and efficient law enforcement training available.

CONCLUSION

Over its history, the FLETC has developed a sustainable competitive advantage as the premier provider of law enforcement training. The process leading to the current organizational structure has required responsive change, adaptability and effective strategic management processes.

Risks faced in today's dynamic global environment include increased competition, technological changes and changing customer demands, to name a few. Continued recognition as the leading provider of law enforcement training mandates that the FLETC maintain an increased awareness of and develop innovative responses to those risks.

To continue fulfilling its role of delivering high quality training with economies of scale, FLETC is poised to transform the way it does business by adopting new or improved approaches, methods, and delivery systems.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

We deliver training Now

Financial Information
Part II

Federal Law Enforcement Training Center
U.S. Department of Homeland Security
1131 Chapel Crossing Road
Glynco, Georgia 31524

Homeland Security

Message from the Chief Financial Officer

This report represents the FLETC's Agency Financial Report (AFR) for Fiscal Year 2009. The AFR includes the FLETC's audited financial statements and Management's Discussion and Analysis (MD&A) of important matters that would likely affect the judgment and decisions of users of this report.

The FLETC has been assessing its internal controls over various financial systems and financial reporting processes. PricewaterhouseCoopers LLP, an independent firm under contract with DHS-OCFO, assisted management in testing the design and effectiveness of our processes and controls and noted several deficiencies, primarily related to system access control issues, which management intends to improve in FY 2010.

The 2009 and 2008 financial statements presented in this AFR were audited by the independent auditing firm, KPMG LLP, under contract with DHS-OIG. In both years, the FLETC received unqualified audit opinions that the financial statements are presented fairly and in conformity with U.S. generally accepted accounting principles. The independent auditors' report in this AFR summarizes the control deficiencies related to the financial reporting and information technology systems controls. FLETC's goal is to remediate the material weaknesses and significant deficiencies disclosed by the audit. Management expects all FY 2009 audit weaknesses to be corrected in FY 2010.

As the Chief Financial Officer, I am committed to continually improving the quality and integrity of the FLETC's financial data and reporting systems. In an environment of increasing needs and decreasing resources, efficient and effective use of current resources is imperative. The FLETC remains committed to these ideals and to providing excellent customer service to its stakeholders and customers.

Alan Titus

Alan Titus
Chief Financial Officer

Office of Inspector General

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

Homeland Security

MAR 15 2010

MEMORANDUM FOR: Connie L. Patrick
Director
Federal Law Enforcement Training Center

FROM: Richard L. Skinner
Inspector General

SUBJECT: *Independent Auditors' Report on the Federal Law Enforcement Training Center's FY 2009 Consolidated Financial Statements*

The attached report presents the results of the Federal Law Enforcement Training Center's (FLETC) consolidated financial statement audits for fiscal years (FY) 2009 and 2008. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audits. KPMG concluded that FLETC's consolidated financial statements as of and for the years ended September 30, 2009, and 2008, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

The FY 2009 independent auditors' report also contains observations and recommendations related to internal control weaknesses that were considered significant deficiencies and were required to be reported in the financial statement audit report. The four significant deficiencies in internal controls are presented below; the first two significant deficiencies are considered to be a material weakness.

Significant Deficiencies

A. Financial Reporting
B. Information Technology General and Security Controls
C. Controls over the Revenue Process
D. Controls over the Accounts Payable Estimation Methodology

KPMG is responsible for the attached independent auditors' report dated December 31, 2009, and the conclusions expressed in the report. We do not express opinions on financial statements or conclusions on compliance with laws and regulations.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. In addition, we will post a copy of the report on our website.

We extend our appreciation to FLETC's Office of the Chief Financial Officer for the cooperation and courtesies extended to our and KPMG's staff during the audit. Should you have any questions, please call me, or your staff may contact Anne Richards, Assistant Inspector General for Audits, at 202-254-4100.

Attachment

Department of Homeland Security
Office of Inspector General

Independent Auditors' Report on the Federal Law Enforcement Training Center's FY 2009 Consolidated Financial Statements

OIG-10-65

March 2010

Office of Inspector General

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

Homeland Security

MAR 1 5 2010

Preface

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

The attached report presents the results of the Federal Law Enforcement Training Center's financial statement audits for fiscal years (FY) 2009 and 2008. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audits. The contract required that KPMG perform its audits according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG concluded that FLETC's consolidated financial statements as of and for the years ended September 30, 2009 and 2008, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. The FY 2009 auditors' report discusses two material weakness, and two significant deficiencies in internal control. KPMG is responsible for the attached auditors' report, and the conclusions expressed in the report. We do not express opinions on FLETC's financial statements or provide conclusions on compliance with laws and regulations.

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

Richard L. Skinner

Richard L. Skinner
Inspector General

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Inspector General
U.S. Department of Homeland Security:

Director
Federal Law Enforcement Training Center:

We have audited the accompanying consolidated balance sheets of the U.S. Department of Homeland Security's (DHS) Federal Law Enforcement Training Center (FLETC) as of September 30, 2009 and 2008, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2009 audit, we also considered FLETC's internal control over financial reporting and tested FLETC's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated financial statements.

Summary

As stated in our opinion on the consolidated financial statements, we concluded that FLETC's consolidated financial statements as of and for the years ended September 30, 2009 and 2008, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as significant deficiencies:

A. Financial Reporting

B. Information Technology General and Security Controls

C. Controls over the Revenue Process

D. Controls over the Accounts Payable Estimation Methodology

We consider significant deficiencies A and B, above, to be material weaknesses.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

The following sections discuss our opinion on FLETC's consolidated financial statements; our consideration of FLETC's internal control over financial reporting; our tests of FLETC's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of the U.S. Department of Homeland Security's Federal Law Enforcement Training Center (FLETC) as of September 30, 2009 and 2008, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FLETC as of September 30, 2009 and 2008, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

The information in the Management's Discussion and Analysis and Required Supplementary Information is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Other Accompanying Information section is presented for purposes of additional analysis and is not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of FLETC's consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

In our fiscal year 2009 audit, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, described in Exhibit I, and other deficiencies that we consider to be significant deficiencies, described in Exhibit II. Exhibit III presents the status of prior year material weaknesses and significant deficiencies.

KPMG

Compliance and Other Matters

The results of our tests of compliance described in the Responsibilities section of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

We noted certain additional matters that we have reported to management of FLETC in a separate letter dated December 31, 2009.

* * * * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to FLETC.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2009 and 2008 consolidated financial statements of FLETC based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FLETC's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2009 audit, we considered FLETC's internal control over financial reporting by obtaining an understanding of FLETC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of FLETC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of FLETC's internal control over financial reporting.

As part of obtaining reasonable assurance about whether FLETC's fiscal year 2009 consolidated financial statements are free of material misstatement, we performed tests of FLETC's compliance with certain provisions of applicable laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to FLETC. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

FLETC's responses to the findings identified in our audit are attached to this report. We did not audit FLETC's responses and, accordingly, we express no opinion on them.

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

KPMG LLP

December 31, 2009

Independent Auditors' Report
Exhibit I – Material Weaknesses

I-A Financial Reporting

Background: The U.S. Department of Homeland Security's (DHS) Federal Law Enforcement Training Center's (FLETC) primary line of business is to provide law enforcement training at its four US facilities for DHS components and over 80 Federal, state and local agencies. Annual appropriations are used to pay for certain types of training, while the cost of other, typically advanced and specialized, training is reimbursed by the other agencies. Generally, FLETC enters into annual reimbursable agreements with their customers, and bills applicable training charges on a monthly basis.

In addition, to ensure that its facilities and training programs are state-of-the-art and able to meet the changing needs of its customers, FLETC is continuously maintaining, modifying, and constructing new property, plant and equipment. FLETC also provides construction contract management services for certain DHS components and other Federal agencies to facilitate the building of specialized training facilities. FLETC pays for the cost of construction with both its own appropriations and other Federal agency dedicated appropriations.

Conditions: We identified the following control deficiencies which in combination are considered a material weakness in internal controls over financial reporting:

Environmental Liabilities
In performing test work procedures over environmental disposal liabilities, we noted that FLETC does not have adequate policies and procedures in place whereby Environmental and Safety Division (EVS) identifies, assesses, estimates, and reports environmental liabilities to the Finance Division throughout the year.

Within the Finance Division, FLETC does not have adequate supervisory and monitoring controls in place to effectively manage (through policies and procedures) the annual process of estimating the environmental liability (in coordination with EVS), and performing the appropriate level of review of EVS' work.

We identified mathematical errors in the environmental disposal liability (EDL) report provided by EVS as well as calculation errors on several buildings on the Charleston campus with lead based paint which were either not included in the EVS report and/or had the incorrect square footage used to estimate the environmental liability related to lead based paint. As a result, FLETC subsequently increased their September 30, 2009 environmental liability estimate from $20.7 million to $22.4 million.

Imputed Costs and Financial Reporting Process
In performing test work over the reasonableness of imputed costs, we noted the following:

- When calculating inter-entity imputed costs related to instructors, FLETC used the incorrect number of instructors for one entity, overstating the number of instructors by 12.
- When calculating imputed costs related to the Office of Personnel Management, FLETC used the incorrect payroll expense amounts, overstating payroll expenses by approximately $38 million.

Additionally, in performing test work procedures over net position, we identified a $5.6 million difference between unexpended appropriations and cumulative results of operations (CRO). We noted that FLETC erroneously posted transactions related to reimbursable funds to Standard General Ledger (SGL) account 3100, *Unexpended Appropriations,* rather than SGL 6100, *Operating Expenses*, which closes to CRO.

I.1

Independent Auditors' Report
Exhibit I – Material Weaknesses

In addition, during the preparation of the Annual Financial Report (AFR), several errors were noted including the following:

- The Statement of Budgetary Resources (SBR) to President's Budget footnote was not properly prepared as the note did not agree to the FY 2008 SBR.
- The Summary of Significant Accounting Policies footnote had not been updated to reflect current year accounting policies, including the implementation of Statement of Federal Financial Accounting Standards (SFFAS) No. 30, *Inter-Entity Cost Implementation*.
- Beginning balance adjustments within the SBR were not reflected in the updated AFR.
- Footnotes were not updated to reflect all top side entries.
- Footnotes did not agree to the consolidated financial statements.
- FY 2008 consolidated financial statement amounts were incorrectly changed from the amounts reflected in the issued FY 2008 financial statements.

Allowance for Doubtful Accounts
In performing test work procedures over the allowance for doubtful accounts, we noted that the allowance was erroneously applied to the receivable balance with the public and not to other federal entities. This resulted in a negative public receivable balance.

Property, Plant, and Equipment (PP&E)
KPMG selected a judgmental sample of 20 PP&E additions during the 9 months ended June 30, 2009, totaling $17.8 million or approximately 85% of the total PP&E additions of $21.1 million, and noted that FLETC had not timely accounted for asset acquisitions or transferred completed assets from construction-in-progress (CIP) to in-use assets in its general ledger. Eleven sample items, or 55%, were not timely recorded in the Momentum (also referred to as the Financial Accounting and Budgeting System ("FABS")) fixed asset module (transactions were recorded 30 days or more after the asset acquisition or in-service date). Of the 11 untimely additions, 10 items were completed CIP projects that were transferred to real property and 1 item was equipment.

FLETC did not always enter correct asset data in the Momentum fixed asset module as follows:

- For one sample item, the Momentum fixed asset module did not contain the in-service date.
- For two sample items, the Momentum fixed asset module contained an incorrect catalog code which resulted in Momentum computing an incorrect useful life.

While performing substantive audit procedures over additions to CIP for the nine months ended June 30, 2009, 2 of the 14 CIP additions tested, relating to one construction project, were not properly capitalized as CIP in the general ledger as follows:

- FLETC incorrectly capitalized $59 thousand of furniture as construction-in-progress rather than capitalizing the items as a bulk purchase in SGL 1750, *Equipment*.
- FLETC incorrectly expensed approximately $616 thousand of furniture that should have been capitalized as part of the bulk purchase mentioned above and expensed approximately $53 thousand of Information Technology (IT) wiring that should have been capitalized as part of the construction project in SGL 1720, *Construction-in-Progress*.

I.2

Independent Auditors' Report
Exhibit I – Material Weaknesses

During a site-visit to the Charleston, SC facility, it was identified that adequate processes to account for leasehold improvements did not exist. KPMG notes that the Finance Division was unaware of the existence of several lease agreements.

In addition, FLETC's review conducted to assist DHS with its compliance with the *Federal Manager Financial Integrity Act* of 1982 (FMFIA) and Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, did not identify all the material weaknesses that we identified during our audit as described above and in Comment I-B *Information Technology General and Security Controls*. Generally, management's review, for purposes of reporting under FMFIA and OMB Circular A-123, should result in identification of similar, if not the same, control deficiencies over financial reporting, as identified by the external financial statement auditors.

Cause/Effect:

Environmental Liabilities
The EVS does not have adequate policies or procedures in place surrounding the preparation of a detailed analysis supporting the environmental liabilities estimate. In addition, the Finance Division has not fully assumed responsibility for the accuracy of environmental liabilities presented in the consolidated financial statements, and did not conduct a detailed review of EVS' work. In FY 2009, FLETC posted adjustments to increase the environmental liability balance by approximately $1.8 million as a result of errors noted during the audit.

Imputed Costs & Financial Reporting Process
FLETC does not have adequate policies and procedures in place requiring the performance of a thorough review of financial reporting information resulting in the following:

- An adjustment to reduce imputed costs by approximately $6.4 million.
- An adjustment to reclassify approximately $5.6 million between unexpended appropriations and expenses (i.e. CRO).
- Corrections to the AFR totaling over $30 million.

Allowance for Doubtful Accounts
FLETC did not properly review the year-end analysis of the allowance for doubtful accounts prior to approving the journal entry resulting in the full reserve being applied to the non-federal receivable. As a result of the error in classifying the allowance from non-federal to federal, FLETC posted an adjustment for approximately $744 thousand.

Property, Plant, and Equipment
The FLETC Property Management Division and Project Site Managers are not effectively coordinating with the Finance Division to actively monitor the CIP accounts and other acquisitions to ensure completed projects and other acquisitions are reclassified to the appropriate general property, plant, and equipment account to ensure that depreciation commences in a timely manner.

Financial Reporting Branch (FRB) review of data entered into the Momentum fixed asset module was not effective in the identification and correction of input errors.

FLETC's budgetary controls over the monitoring of Purchase Requisition accounting lines (used by Momentum to post expenditures to the SGL) are not effective. In addition, FLETC does not have adequate policies and procedures over bulk purchases. FLETC does not perform a review of

Independent Auditors' Report
Exhibit I – Material Weaknesses

capitalizable (equipment) budget object classes (BOC) that were recorded as expenses to identify potentially capitalizable transactions.

The known errors, related to the untimely capitalization of assets, resulted in depreciation expense and accumulated depreciation being overstated by a total of approximately $15 thousand.

As a result of the exceptions noted related to the improper expensing and capitalization of PP&E, FLETC performed an analysis of expense transactions with budget object class 31XX to identify similar transactions. As a result of the analysis, FLETC identified approximately $2.9 million of assets which had been improperly expensed, one of which was a bulk purchase of computers. In addition, we noted an exception in our expense test work for an item, $620 thousand, which was improperly expensed and noted that these assets were properly identified in FLETC's analysis.

Internal controls designed to ensure the completeness and accuracy of leasehold improvements at all facilities were not operating effectively during FY 2009. Prior to an adjustment posted by FLETC, the FY 2009 ending balances of Leasehold Improvements and Accumulated Depreciation - Leasehold Improvements were understated by approximately $3.0 million and $400 thousand, respectively; and the amounts reported for Buildings and Accumulated Depreciation - Buildings were overstated by approximately $3.0 million and $400 thousand, respectively.

Criteria:

Environmental Liabilities
SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, provides the definition and general principle for recognition of liabilities in paragraph 19: "A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events." Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government,* states, "liabilities shall be recognized when the following conditions are met:

- a past transaction or event has occurred,
- a future outflow or other sacrifice of resources is probable, and
- the future outflow or sacrifice of resources is measurable."

Technical Release No. 2 also states the following regarding due care: "Due care refers to a reasonable effort to identify the presence or likely presence of contamination. Due care is considered to be exercised if an agency has effective policies and procedures in place to routinely attempt to identify contamination and forward that information to the responsible agency official." Procedures that are evidence of the exercise of due care are further described in Technical Release No. 2.

SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, defines clean-up costs in paragraph 85 as: "…the costs of removing, containing, and/or disposing of (1) hazardous waste … from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E." Furthermore, paragraph 87 clarifies that "[c]leanup may include, but is not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and postclosure costs."

Independent Auditors' Report
Exhibit I – Material Weaknesses

Imputed Costs, Financial Reporting & Allowance for Doubtful Accounts
OMB Circular A-123, defines management's responsibility for internal control and provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control. Under OMB Circular A-123, "[w]ithin the organizational structure, management must clearly: define areas of authority and responsibility; appropriately delegate the authority and responsibility throughout the agency; establish a suitable hierarchy for reporting; support appropriate human capital policies for hiring, training, evaluating, counseling, advancing, compensating, and disciplining personnel; and uphold the need for personnel to possess and maintain the proper knowledge and skills to perform their assigned duties as well as understand the importance of maintaining effective internal control within the organization."

Property, Plant, and Equipment
OMB Circular A-123, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely and reliable financial and other reports. Documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

Per FLETC Finance (FIN) Standard Operating Procedures (SOP) No. 5, *Capitalization of Assets*, "The Property Accountant forwards the JV [journal voucher] with substantiating documents to the supervisor, who approves the JV in Momentum. Prior to approving the JV, the supervisor queries the asset record FA [fixed asset document type] entered by Property Management Division (PMD) and verify that all data fields, especially, in-service date, useful life, depreciation method, capitalization, and acquisition cost, are accurately entered. The supervisor will contact PMD for any missing, incomplete or erroneous data for correction. When verified as complete, the supervisor screen prints the asset FA or FC [fixed asset change document type] record transaction and includes it in the JV supporting documents."

Per FLETC Property Management Division SOP No. 9, *Real Property Standard Operating Procedures,* Section VI, "Property Management Division (PMD) is responsible for:

a. Acting as the repository for real property files, excluding full size prints and plans. These files shall include, but are not limited to the following: maps, legal descriptions of the properties, copies of the title, metes and bounds surveys, historic significance, Americans with Disabilities (ADA) surveys, capitalization reports, copies of MOUs, MOAs, and license or lease agreements, copies of contracts and copies of invoices/bills, transfer-in documents, space utilization data, annual consolidated utilities and communications reports, annual operations and maintenance cost, deferred maintenance cost, annual security cost, documented environmental liabilities and management, documented fire, life safety and security issues and programs, a copy of the facility allocation listing maintained by the Strategic & Planning Analysis Division (SPA), and real property disposal records.
b. Maintaining and updating official real property records. The PMD Inventory Management Specialist shall input all capitalized real property acquisitions into the Asset Management System within five working days of receipt of the final copy of the Capitalization Report from FIN. The final Capitalization Report is accompanied by copies of paid invoices and contracts from FIN.

I.5

Independent Auditors' Report
Exhibit I – Material Weaknesses

Facilities Management Division (FMD) is responsible for:

a. Submitting copies of all Capitalization Reports to FIN within 10 calendar days of any of the following:
- beneficial occupancy of any building,
- completion of any facility or structure, or
- final decision of additional cost resulting from litigation.

9. Finance Division (FIN) is responsible for:

a. Submitting approved Capitalization Reports to PMD with validated construction/renovation/project costs and copies of paid invoices (less in-house labor costs) and contracts within two (2) work days after receipt of Capitalization Report from FMD."

SFFAS No. 6: *Accounting for Property, Plant & Equipment,* states that the operating performance objective of SFFAS No. 6 seeks to ensure that federal agencies report,

"…relevant and reliable cost information for decision-making by internal users (e.g., program managers, budget examiners and officials); comprehensive, comparable cost information for decision-making and program evaluation by Congress and the public; and information to help assess the efficiency and effectiveness of asset management (e.g., condition of assets including deferred maintenance)."

(h) General PP&E shall be reported in the basic financial statements: the balance sheet, and the statement of net cost. The acquisition cost of general PP&E shall be recognized as an asset. Subsequently, except for land which is a non-depreciable asset, that acquisition cost shall be charged to expense through depreciation. The depreciation expense shall be accumulated in a contra asset account—accumulated depreciation.

Capitalization Threshold

(148) The Federal Accounting Standards Advisory Board (the Board) believes that Federal entities are sufficiently diverse that one threshold would not be suitable for all entities.

(149) Instead of setting a specific threshold, the Board has adopted a materiality approach—just as is done in private sector accounting. Each entity would establish its own threshold as well as guidance on applying the threshold to bulk purchases. The Board believes that permitting management discretion in establishing capitalization policies will lead to a more cost-effective application of the accounting standards.

Per *FLETC Property Management Function Process Documentation (8/18/2008)*

Capitalized: The Capitalized field is automatically set to 'Yes' for items over the $50,000.
-All equipment with a unit cost of over $50,000 and estimated useful life of 2 years or more is capitalized. FLETC does not use the "original complement" concept, wherein original shipments of multiple small assets may be capitalized if their total value exceeds the capitalization threshold.

Per *DHS FMP019: Capitalization and Depreciation of Personal Property*

Bulk Purchases. The single purchase of like items in a lot, with the cost of each individual item being below the established capitalization threshold.

I.6

(2) Capitalization
(A) Bulk purchases will be subject to a capitalization threshold of $1,000,000.
(D) The threshold(s) listed above are not applicable for instances in which adopting it would cause a material misstatement of the financial statements of the entity when taken on a stand alone basis, or when the adoption of this policy would cause the entity to not be in compliance with Generally Accepted Accounting Principles. Should such an instance occur, the entity will consult with OFM for assistance in determining the correct capitalization threshold.

Recommendations:

Environmental Liabilities
We recommend that FLETC develop and implement policies and procedures to ensure that EVS reviews the environmental disposal liability detail on a routine basis, at least quarterly. We also recommend that FLETC Finance Division implement the necessary supervisory and monitoring controls to effectively manage (through policies and procedures) the annual process of estimating the liability (in coordination with EVS) and perform the appropriate level of review of EVS's work.

Imputed Costs, Financial Reporting Process & Allowance for Doubtful Accounts
We recommend that FLETC implement policies and procedures to ensure that a timely and thorough review of all financial reporting documentation, including journal entries and preparation of the AFR, is performed prior to completion.

Property, Plant, and Equipment
We recommend that FLETC:

1. Adhere to FIN SOP-5 and Property SOP 9 and any other appropriate policies and procedures to ensure that data, including asset in-service dates, are accurately and timely entered in the Momentum fixed asset module.
2. Establish processes to improve communication between the Finance Division, Property Management Division, and Project Site Managers to ensure that assets are appropriately classified and consistently accounted for.
3. Follow the newly implemented bulk purchase capitalization threshold of $250 thousand.
4. Perform a more detailed review of CIP related invoices to verify that the appropriate amounts are capitalized or expensed.
5. Implement a more detailed review of the accounting data before contracts are approved and entered into Momentum to ensure that purchases are coded to the correct BOC and therefore properly capitalized or expensed.
6. Implement a periodic review of expense transactions with BOC 31XX to identify any assets which were improperly expensed.

I-B Information Technology General and Security Controls

Background: During FY 2009, FLETC took corrective action to address many of its prior year IT control weaknesses. The upgrade of the Financial Accounting and Budgeting System (FABS) [also called Momentum] and the installation of new hardware near the end of FY 2008 improved the overall security structure at FLETC. However, during FY 2009, we continued to identify IT general control weaknesses that impact FLETC's financial data.

Independent Auditors' Report
Exhibit I – Material Weaknesses

In addition, system access is a critical control element for FLETC, both from a financial processing perspective and an operational perspective. The Government Accountability Office (GAO) defines access controls as controls that should limit or detect access to computer resources (data, program, equipment, and facilities), thereby protecting those resources against unauthorized modification, loss, and disclosure. Such controls include classifying resources by criticality and sensitivity, identifying authorized users and access authorized, establishing physical and logical controls and monitoring access, investigating violations, and taking actions.

Conditions:

Access Controls and Configuration Management:

- Access and configuration management weaknesses on the Glynco Administrative Network (GAN) and the servers that support Momentum and Student Information System (SIS). These weaknesses included default configuration settings, role and group policies, and weak password management.
- System Engineering Life Cycle (SELC) for Momentum is not finalized.
- Momentum system software event audit logs are not being captured and reviewed.
- Password configuration settings for Linux, which support Momentum system software, allow 6 failed logon attempts before the account is locked.
- Momentum and the GAN security violation audit logs lack management review and signoff.
- Momentum user profile creation or modification is not logged or tracked.
- Weak logical access controls over the GAN and SIS were noted.

Security Management:

- Physical security weaknesses which identified improper protection of system user names and passwords, unsecured information security hardware, documentation containing Personally Identifiable Information (PII) or marked "For Official Use Only", (FOUO) and unlocked network sessions.

Cause/Effect: FLETC has been relying on the full implementation of the Security Information Management (SIM) system, which will monitor Momentum system software and the GAN audit logs. However, this has not occurred to date due to unavailable staffing. In addition, due to the lack of management oversight, the Momentum approval and security logs review procedures are not being adhered to. The lack of audit logs may cause security related incidents to go unnoticed and uninvestigated, thus allowing potential unauthorized system software changes to deploy into the production environment.

FLETC management has not enabled the Momentum audit logging system setting, which would capture user profile creation and modification. Without logging of new users and profile changes, FLETC would be unaware of any unauthorized additions or changes to profiles within Momentum. This could also lead to a violation of both separation of duties and least privilege principles.

Due to lack of management oversight, GAN logical access controls and Momentum system software access controls have not been strengthened to meet DHS compliance. In addition, FLETC management considers the SIS to have a low impact on operations; therefore, sufficient controls have not been implemented. Yet, having weak system access controls increase the risk of unauthorized individuals gaining access to and improperly modifying or destroying data. Also, having generic/shared user accounts on a production system reduces the audit and accountability of users within the system. Without documenting and approving access forms to applications, management is unaware of the system access an individual may possess. This could lead to a violation of both separation of duties and least privilege principles. Additionally, unauthorized users may obtain access to the systems. Without access review and recertification procedures being formally documented, reviewers do not have a standard for effectively conducting the recertification of GAN accounts. This could lead to the risk of potentially allowing users to have account privileges that are no longer needed, or should not have been initially granted.

FLETC is not continuously monitoring their vulnerability assessment scans for configuration management vulnerabilities. As a result, default system and application configuration installations on the FLETC's Glynco Administrative Network (GAN), FABS, and Student Information System (SIS) increases the ability to compromise the availability, integrity, and confidentiality of financial data on the network. This can expose the information system control environment to security breaches, unauthorized access, service interruptions, and denial of service attacks.

FLETC management has not ensured that personnel are adequately trained and aware of the basic IT security policies described by DHS and FLETC to protect their login credentials, lock network sessions to DHS systems, secure information system hardware, and securely store/limit access to FOUO and PII. The failure to control access to sensitive IT resources and FLETC documentation could potentially result in the theft or destruction of FLETC assets, unauthorized access to sensitive information, and disruptions in processing of FLETC financial systems. Additionally, FLETC personnel who are not adequately trained to protect their login credentials present an increased risk of unauthorized access to sensitive information from external and internal threats.

Criteria: The *Federal Information Security Management Act* (FISMA) passed as part of the *E-Government Act of 2002,* mandates, among other things, that Federal entities maintain IT security programs in accordance with National Institute of Standards and Technology (NIST) guidance, and other applicable guidance.

OMB Circular No. A-130, *Management of Federal Information Resources,* describes specific essential criteria for maintaining effective general IT controls.

DHS' *Sensitive Systems Policy, 4300A*, documents policies and procedures adopted by DHS intended to improve the security and operation of all DHS IT systems.

Recommendations: We recommend that the FLETC Chief Information Officer (CIO) and Chief Financial Officer (CFO), in coordination with the DHS Office of Chief Financial Officer and the DHS Office of the Chief Information Officer**,** make the following improvements to FLETC's financial management systems and associated information technology security program:

Access Controls and Configuration Management:

1. Redistribute procedures and train employees on continuously monitoring and mitigating vulnerabilities. In addition, we recommend that FLETC periodically monitor the existence of unnecessary services and protocols running on their servers and network devices, in addition to deploying patches.
2. Continue to perform vulnerability assessments and penetration tests on all offices within FLETC, from a centrally managed location with a standardized reporting mechanism that allows for trending, on a regularly scheduled basis in accordance with NIST guidance.
3. Develop a more thorough approach to track and mitigate configuration management vulnerabilities identified during monthly scans. FLETC should monitor the vulnerability reports for necessary or required configuration changes to their environment.
4. Develop a process to verify that systems identified with "HIGH/MEDIUM Risk" configuration vulnerabilities do not appear on subsequent monthly vulnerability scan

Independent Auditors' Report
Exhibit I – Material Weaknesses

reports, unless they are verified and documented as a false-positive. All risks identified during the monthly scans should be mitigated immediately, and not be allowed to remain dormant.

5. Enable audit logging over all Momentum system software and ensure that logs are maintained and proactively reviewed by management.
6. Enforce existing FLETC policy and procedures over maintenance and review of Momentum security violation logs.
7. Establish and implement procedures to document and review logs of auditable events on the GAN.
8. Activate logs for monitoring Momentum user profile creation and modifications.
9. Implement the corrective actions identified during the audit vulnerability assessment as identified in the issued NFR.
10. Perform periodic scans of the FLETC network environment, including the financial processing environment, for the identification of vulnerabilities, in accordance with National Institute of Standards and Technology (NIST) SP 800-42, and implement corrective actions to mitigate the risks associated with any vulnerabilities identified during periodic scans.
11. Establish a process to ensure the GAN and Linux (Momentum system software) is configured to meet minimum DHS password configuration requirements.
12. Remove all GAN and SIS generic/shared accounts and conduct periodic reviews of the user access lists to ensure compliance.
13. Establish and enforce procedures for the completion and maintenance of user access forms for the GAN and SIS.
14. Enforce procedures for the removal of transferred/terminated users within the GAN upon their separation from FLETC.
15. Establish and implement policies and procedures for recertification of GAN user privileges. This process should include a method to document user recertification and a process to maintain evidence of the reviews.
16. Establish a process to ensure the SIS is configured to meet minimum DHS password and system configuration requirements.
17. Retain audit trail records in accordance with DHS policies in order to support potential incidents within the system, and for review of user privileges.

Security Management:

1. Ensure that users are trained and aware of safeguarding login credentials, locking network sessions to DHS systems, and locking any sensitive information, media containing sensitive information, or data not suitable for public dissemination in secure locations when not in use.
2. Effectively limit access to DHS buildings, rooms, work areas, spaces, and structures housing IT systems, equipment, and data to authorized personnel.

Because of the sensitivity of the information, we issued a separate limited distribution report to the Chief Information Officer and Chief Financial Officer of FLETC detailing the conditions identified and our recommendations for corrective action.

Independent Auditors' Report
Exhibit II – Significant Deficiencies

(See Exhibit I for Comments A and B)

II-C Controls over the Revenue Process

Background: FLETC bills an agency/customer for a training course upon completion. The billing information is sent electronically to the Finance Division from the Budget Division in the form of monthly Training Charges (TC) documents obtained from the Student Information System (SIS). The TC document lists all training costs allocated to the agency/customer by budget object class. A Finance Division accountant obtains the TC documents and processes them in Momentum, which reclassifies the expenditures from FLETC to the appropriate reimbursable agreement.

In addition to the electronic TCs, the Budget Division provides the Finance Division with the monthly 'Agency Reimbursable Report' and 'Agency Reimbursable Report by Student', which lists the agencies'/customers' monthly charges by budget object class code and by individual student, respectively. The Finance Division accountant separates the Agency Reimbursable Reports by agency/customer and uses it to create the bills and billing documents in Momentum.

Conditions: We selected a statistical sample of 21 training revenue transactions and an additional judgmental sample of 12 revenue transactions from standard general ledger account (SGL) 5200, *Revenue from Services Provided,* for the nine months ended June 30, 2009. During our test work procedures, we noted the following:

- 1 instance where FLETC underbilled the customer.
- 2 instances where FLETC overbilled the customer.

Due to the errors identified in the initial interim training revenue sample, described above, we selected an additional statistical sample of 13 training revenue transactions samples from SGL 5200 for the same period. During our test work procedures, we noted the following:

- 3 instances where FLETC overbilled the customer.

We selected a statistical sample of 22 training revenue transaction samples from SGL 5200 for the period July 1, 2009 through September 30, 2009. During our test work procedures, we noted the following:

- 2 instances where FLETC underbilled the customer.
- 2 instances where FLETC overbilled the customer.

Cause/Effect: Controls over the billing process are not designed properly to prevent an error in the completeness or accuracy of billing documents since there are no policies or procedures for Finance Division management to perform a detailed review against supporting documentation of the billing documents prior to issuance.

Due to the errors identified above, FLETC underbilled the customer in 3 instances, resulting in a known understatement of revenue of $5,038, which resulted in a projected error of $1,736, for a total most likely understatement of $6,774. FLETC also overbilled customers in 7 instances, resulting in a known overstatement of revenue of $45,910, which resulted in a projected error of $11,756, for a total most like overstatement of $57,666.

II.1

Independent Auditors' Report
Exhibit II – Significant Deficiencies

Criteria: OMB Circular A-123, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely and reliable financial and other reports. Documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

OMB Circular A-123 also states, "The importance of internal control is addressed in many statutes and executive documents. The FMFIA establishes overall requirements with regard to internal control. The agency head must establish controls that reasonably ensure that: "(i) obligations and costs are in compliance with applicable law; (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, paragraph 34 states, "Revenue from exchange transactions should be recognized when goods or services are provided to the public or another Government entity at a price."

SFFAS No. 7, paragraph 36 states, "When services are provided to the public or another Government entity (except for specific services produced to order under a contract), revenue should be recognized when the services are performed."

SFFAS No. 7, paragraph 38 states, "The measurement basis for revenue from exchange transactions should be the actual price that is received or receivable under the established pricing arrangements."

Recommendations: We recommend that FLETC:

1. Implement a review process prior to the Budget Division submitting information to the Finance Division to ensure the billing information is complete and accurate.
2. Finance Division implement a review process prior to the release of customer billing documents to ensure bills were properly generated.

II-D Controls over the Accounts Payable Estimation Methodology

Background: In order to calculate the year-end accounts payable accrual, the FLETC Finance Division (Finance) requested that all responsible individuals (contracting officers/program managers) provide an estimated amount for all goods/services that had been/will be provided but not yet billed to FLETC by year-end. As the amounts are based on the information available as of year-end, the accrued amounts may not be exactly the same amount that is ultimately paid by FLETC subsequent to year-end.

Conditions: KPMG selected a statistical sample of 80 accrual estimates as of September 30, 2009 and examined the appropriateness of the accrual based on either subsequent payments and/or the estimation methodology. The results of testing are as follows:

- 7 instances where the amount was over accrued by $50,000 or more.
- 4 instances where the amount was under accrued by $50,000 or more.

KPMG selected a statistical sample of 69 subsequent disbursements for the period October 1, 2009 through November 17, 2009 and noted the following:

- 2 instances where FLETC under accrued in the total amount of $302 thousand.
- FLETC erroneously included travel related disbursements for the period October 1, 2008 through October 20, 2008 rather than October 1, 2009 through October 20, 2009 in the population, resulting in approximately $146 thousand of FY 2008 transactions being inappropriately included in the initial subsequent disbursements sample.

Cause/Effect: There is a lack of communication between the contracting officers/program managers and Finance. When estimating the year-end accrual, the contracting officers/program managers and Finance should work together to ensure the estimate is accurate and reasonable based on available supporting documentation (i.e. invoices, past payment history, etc.)
The differences identified during test work over accounts payable accrual resulted in a net overstatement of accounts payable of approximately $1.3 million as of September 30, 2009 as follows:

- Overstatement – known difference of $2.9 million and projected difference of $20 thousand for a total most likely error of $2.92 million
- Understatement – known difference of $880 thousand and projected difference of $808 thousand for a total most likely error of $1.69 million.

Criteria:

SOP-39 Standard Operating Procedures – Accounts Payable – Quarterly Liability Estimates

a. An Accounting Operations Branch Accountant will be designated to oversee the procedures below and will be responsible for ensuring that proper liabilities have been recorded on the financial records. The Accountant will also be responsible for reviewing the open obligations listing and establishing a spreadsheet to ensure all obligations have been reviewed.

b. At least one month prior to the reporting months of December, March, June and September, a formal letter will be signed by the CFO/DCFO and sent to the Associate Directors, Assistant Directors, Division and Branch Chiefs, and on-site Partner Organization Representatives. The letter will request assistance from COTRs and/or End Users in providing FIN with the estimated dollar amounts on Blanket Purchase Agreements (BPAs), Contracts, Lease Agreements, utilities, etc., for goods and services received but not invoiced for the quarter end.

c. The quarterly estimated amounts should be provided to FIN so that "Receivers" (RC) and "Itemized Receivers" (IC) are processed in a timely manner before the closing at the end of the month or yearend. A due date of "No Later Than" the 25th day of the month before closing will be required.

d. Once the letter is released, a notice/request will be sent by the accounting technicians to responsible individuals (COTR/End User). Emails and phone calls will be placed by the technicians to the COTRs, end users, or vendors (depending on type of order) to follow up on information needed or not received.

e. Once the estimated amounts are received, the Accounting Technicians will process the RCs and/or ICs into the Momentum Financial System. If the Accounting Technicians do not receive a response, an estimate will be used. The estimate will be based on either historical data or an average amount, whichever would provide the best estimate.

f. The Accounting Technician is required to complete a "RC/IC" Worksheet for each RC and IC. The worksheet will include such information as Momentum document number, amount,

Independent Auditors' Report
Exhibit II – Significant Deficiencies

calculation method, etc. The technician should also attach all supporting documentation to the worksheet.

g. As the RC and IC are processed in Momentum, the Accounting Technician will provide the RC/IC Worksheet to an accountant along with supporting documentation. The accountant will then review and ensure all estimates have been properly calculated and recorded. The accountant will follow-up and/or obtain additional information if needed.

h. The Accountant will utilize this information to review and document the Open Obligations Spreadsheet, as mentioned above.

i. The Accounting Technician will utilize the Analysis Worksheet to compare the estimated accrual (RC/IC) to the actual payment associated with the estimate. The Accounting Technician will provide the Accountant with the Analysis Worksheet for further review. The Accountant will review all worksheets to determine if the accounts payable accrual is reasonable.

Recommendations: We recommend that FLETC implement improved policies and procedures to enhance the communication between the contracting officers/program managers and Finance to ensure that the accrual estimate is accurate and reasonable based on the available supporting documentation.

Independent Auditors' Report
Exhibit III– Status of Prior Year Findings

Prior Year Condition	As Reported at September 30, 2008	Status as of September 30, 2009
Financial Reporting	**Material weakness:** Several weaknesses existed related to the financial reporting process, including reimbursable construction revenue, accounts payable, capital assets and construction in progress, and adjustments to certain budgetary accounts.	**Partially corrected; repeated as Material Weakness (Comment I-A)**
Environmental Liabilities	**Material Weakness:** FLETC does not have adequate processes, policies, and procedures in place whereby the EVS identifies, assesses, estimates, and reports to the Finance Division regarding the existence and estimate of environmental liabilities throughout the year.	**Repeated as Material Weakness (Comment I-A)**
Information Technology General and Application Controls	**Significant deficiency:** Several weaknesses existed related to Financial Systems Security, such as IT general control weaknesses, entity-wide security program planning weaknesses, system software weaknesses, and service continuity weaknesses.	**Partially Repeated (Comment I-B)**
Non-compliance with the Anti-deficiency Act	**Instance of non-compliance:** FLETC was not in substantial compliance with the Anti-deficiency Act as FLETC reported a violation related to classification of a building lease and were investigating the classification of two other building leases.	**Corrected**

III.1

Federal Law Enforcement Training Center
U. S. Department of Homeland Security
1131 Chapel Crossing Road
Glynco, Georgia 31524

Homeland Security

February 19, 2010

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the Federal Law Enforcement Training Center's (FLETC) consolidated financial statements as of September 30, 2009 and 2008, and the related Independent Auditors' Report. In response to the findings, our concurrence or non-concurrence is as follows:

Exhibit I – Material Weaknesses

A. Financial Reporting - we concur with the finding.

B. Information Technology General and Security Controls – we concur with the finding.

Exhibit II – Significant Deficiencies

C. Controls over the Revenue Process – we concur with the finding.

D. Controls over the Accounts Payable Estimation Methodology – we concur with the finding.

Sincerely,

Julie Martin

Julie Martin
Deputy Chief Financial Officer
Federal Law Enforcement Training Center

www.fletc.gov

Appendix A
Report Distribution

<u>Department of Homeland Security</u>

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

<u>Federal Law Enforcement Training Center</u>

Director
Chief Financial Officer
Chief Information Officer

<u>Office of Management and Budget</u>

Chief, Homeland Security Branch
DHS OIG Budget Examiner

<u>Congress</u>

Congressional Oversight and Appropriations Committees, as appropriate

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

• Call our Hotline at 1-800-323-8603;

• Fax the complaint directly to us at (202) 254-4292;

• Email us at DHSOIGHOTLINE@dhs.gov; or

• Write to us at:
DHS Office of Inspector General/MAIL STOP 2600,
Attention: Office of Investigations - Hotline,
245 Murray Drive, SW, Building 410,
Washington, DC 20528.

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

Department of Homeland Security

FEDERAL LAW ENFORCEMENT TRAINING CENTER
CONSOLIDATED BALANCE SHEETS

As of September 30, 2009 and 2008
(In Thousands)

	2009	2008
ASSETS (Note 2)		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 3)	$ 207,713	$ 173,213
Accounts Receivable, Net (Note 4)	36,660	26,934
Other (Note 6)	1,768	369
Total Intragovernmental Assets	246,141	200,516
Accounts Receivable, Net (Note 4)	827	1,188
Property, Plant and Equipment, Net (Note 5)	570,264	541,072
TOTAL ASSETS	**$ 817,232**	**$ 742,776**
LIABILITIES AND NET POSITION		
LIABILITIES (Note 7)		
Intragovernmental Liabilities:		
Accounts Payable	$ 1,063	$ 2,360
Other (Note 10)	5,043	4,552
Total Intragovernmental Liabilities	6,106	6,912
Accounts Payable	37,893	24,726
Federal Employee and Veterans Benefits	19,344	17,459
Accrued Payroll and Benefits (Note 8)	14,140	14,690
Environmental Clean-Up Liability (Note 9)	22,214	21,006
Capital Lease Liability (Note 11)	53,955	56,499
Other (Note 10)	1,071	1,800
TOTAL LIABILITIES	**154,723**	**143,092**
Commitiments and Contingencies (Note 12)		
NET POSITION		
Cumulative Results of Operations	462,188	436,381
Unexpended Appropriations	200,321	163,303
TOTAL NET POSITION	**662,509**	**599,684**
TOTAL LIABILITIES AND NET POSITION	**$ 817,232**	**$ 742,776**

The accompanying notes are an integral part of the consolidated financial statements.

Department of Homeland Security

FEDERAL LAW ENFORCEMENT TRAINING CENTER
CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30, 2009 and 2008
(In Thousands)

	2009	2008
PROGRAM COSTS:		
Federal Law Enforcement Training		
Gross Costs (Note 13)	$ 404,397	$ 373,523
Less: Earned Revenue (Note 13)	89,188	79,272
Net Program Cost	315,209	294,251
Reimbursable Construction		
Gross Costs (Note 13)	60,092	87,937
Less: Earned Revenue (Note 13)	60,600	87,283
Net Program Cost	(508)	654
Net Cost of Operations	**$ 314,701**	**$ 294,905**

The accompanying notes are an integral part of the consolidated financial statements.

Department of Homeland Security

FEDERAL LAW ENFORCEMENT TRAINING CENTER
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2009 and 2008
(In Thousands)

	2009	2008
Cumulative Results of Operations:		
Beginning of Year	$ 436,381	$ 401,597
Budgetary Financing Sources:		
Appropriations Used	297,673	281,017
Donations	-	1
Other Financing Sources:		
Transfers In/Out Without Reimbursement	10,813	26,138
Imputed Financing Sources	32,022	22,369
Other	-	164
Total Financing Sources	340,508	329,689
Net Cost of Operations	(314,701)	(294,905)
Net Change	25,807	34,784
CUMULATIVE RESULTS OF OPERATIONS, END OF YEAR	**462,188**	**436,381**
UNEXPENDED APPROPRIATIONS:		
Beginning of Year	163,303	150,935
Budgetary Financing Sources:		
Appropriations Received	332,986	288,666
Appropriations Transferred in/Out	-	8,636
Other Adjustments	1,705	(3,917)
Appropriations Used	(297,673)	(281,017)
Total Budgetary Financing Sources	37,018	12,368
UNEXPENDED APPROPRIATIONS, END OF YEAR	**200,321**	**163,303**
NET POSITION, END OF YEAR	**$ 662,509**	**$ 599,684**

The accompanying notes are an integral part of the consolidated financial statements.

Department of Homeland Security

FEDERAL LAW ENFORCEMENT TRAINING CENTER
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2009 and 2008
(In Thousands)

	2009	2008
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward October 1	$ 140,378	$ 116,297
Recoveries of Prior Year Obligations	11,854	19,586
Budget Authority:		
Appropriations	332,986	288,666
Spending Authority from Offsetting Collections		
Earned		
Collected	140,610	179,668
Change in Receivables from Federal Sources	10,186	(8,466)
Change in Unfilled Customer Orders		
Advance Received	(6)	(68)
Without Advance from Federal Sources	(16,578)	(24,593)
Subtotal	467,198	435,207
Nonexpenditure Transfers, Net, Anticipated and Actual	-	8,636
Permanently Not Available	(3,905)	(3,875)
TOTAL BUDGETARY RESOURCES	**$ 615,525**	**$ 575,851**
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred		
Direct	$ 288,860	$ 285,278
Reimbursable	171,814	150,195
Subtotal	460,674	435,473
Unobligated Balance		
Apportioned (Note 3)	134,391	116,949
Unobligated Balance Not Available (Note 3)	20,460	23,429
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 615,525**	**$ 575,851**
CHANGES IN OBLIGATED BALANCES		
Obligated Balance, Net, Beginning of Period		
Unpaid Obligations, Brought Forward October 1	$ 164,524	$ 216,340
Uncollected Customer Payments from Fed Sources, Oct 1	(132,627)	(165,686)
Total Unpaid Obligated Balance, Net, Beginning of Period	31,897	50,654
Obligations Incurred, Net	460,674	435,473
Gross Outlays	(435,224)	(467,703)
Recoveries of Prior Year Unpaid Obligations	(11,855)	(19,586)
Change in Uncollected Customer Payments from Federal Sources	6,392	33,059
Obligated Balance, Net, End of Period		
Unpaid Obligations	178,121	164,524
Uncollected Customer Payments from Federal Sources	(126,236)	(132,627)
Total Unpaid Obligated Balance, Net, End of Period	$ 51,885	$ 31,897
NET OUTLAYS		
Gross Outlays	$ 435,224	$ 467,703
Offsetting Collections	(140,604)	(179,600)
Distributed Offsetting Receipts	(28)	(26)
Net Outlays	**$ 294,592**	**$ 288,077**

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Federal Law Enforcement Training Center (FLETC), a component of the U.S. Department of Homeland Security (DHS), serves as an interagency law enforcement training center. The FLETC provides facilities, equipment, and support services for conducting law enforcement training for Federal agencies and specialized programs for state and local agencies and foreign governments. The FLETC was established on July 1, 1970, by Treasury Department Order No. 217, as an organizational entity within the Department of the Treasury. The FLETC was transferred from Treasury to the DHS on March 1, 2003 by the Homeland Security Act of 2002 (P.L. 107-296). Training sites and offices include Glynco, Georgia; Artesia, New Mexico; Washington, DC; Charleston, South Carolina; and Cheltenham, Maryland. Also, the FLETC conducts training at four International Law Enforcement Academies (ILEA) located in Budapest, Hungary; Bangkok, Thailand; Gaborone, Botswana; and San Salvador, El Salvador. The programs and operations of the FLETC are funded principally through Congressional appropriations on an annual, multi-year, and no-year basis. Accordingly, operating costs incurred and recorded as expenses are funded through either appropriated funds, reimbursable agreements or other financing sources.

B. BASIS OF ACCOUNTING AND PRESENTATION

The financial statements presented include the Consolidated Balance Sheets as of September 30, 2009 and September 30, 2008, and Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position and Combined Statements of Budgetary Resources for the years ended September 30, 2009 and 2008. The financial statements have been prepared from the accounting records of the FLETC in conformity with U.S. generally accepted accounting principles (GAAP), based on accounting standards issued by the Federal Accounting Standards Advisory Board, and with the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, as amended.

Under GAAP, as a general rule, revenues and related assets are recognized when earned, and expenses and related liabilities are recognized when incurred. The Consolidated Balance Sheets, the Consolidated Statements of Net Cost and the Consolidated Statements of Changes in Net Position are reported using this accrual basis of accounting. The Combined Statements of Budgetary Resources (SBR) are reported using the budgetary basis of accounting, which facilitates compliance with legal constraints and controls over the use of federal funds. The SBR has no elimination entries.

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation and that payment of liabilities other than for contracts can be abrogated by the sovereign entity.

C. ASSETS AND LIABILITIES

Entity intragovernmental assets and liabilities result from activity with other Federal agencies. All other entity assets and liabilities result from activity with parties outside the Federal government, such as domestic and foreign persons, organizations, or governments outside the U.S. Government. Assets represent tangible items that have probable economic benefits that can be obtained or controlled by the FLETC. Liabilities represent the amount of monies or other resources that are likely to be paid as a result of transactions or events that have already occurred. However, no liability can be paid absent an appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as liabilities not covered by budgetary resources. Although future appropriations to fund the liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities.

D. FUND BALANCE WITH TREASURY
Fund Balance with Treasury represents funds available to pay liabilities and finance authorized expenditures.

E. ACCOUNTS RECEIVABLE AND RELATED ALLOWANCE FOR UNCOLLECTIBLE AMOUNTS
Outstanding billed reimbursable costs for goods and services provided to other Federal agencies and state and local governments comprise the majority of accounts receivable. The FLETC presents its receivables from Federal agencies and the public net of an allowance for doubtful accounts. The allowance for estimated uncollectible accounts receivable is determined by using the Percentage Analysis Method. The Percentage Analysis Method derives an estimated percentage of uncollectible accounts receivable based on the experience of collecting past due accounts. In FY2008, the Specific Identification Method was used when actual uncollectible amounts of receivables were known.

F. OTHER INTRAGOVERNMENTAL ASSETS
Other intragovernmental assets consist of advances to the Department of the Interior (DOI) GOVWORKS program, Office of Personnel Management (OPM), and the DHS Working Capital Fund (WCF). These governmental advanced funds are to cover expenses of operating and maintaining common administrative services provided to the FLETC, such as the e-travel program, FedTraveler, and electronic learning portal. The FLETC expects any unused advances to GOVWORKS, OPM, and WCFs to be refunded when a determination is made that the funds will not be used.

G. PROPERTY, PLANT, AND EQUIPMENT
The FLETC capitalizes property, plant, and equipment (PP&E) with an acquisition value of $50,000 or greater, and a useful life of two or more years, including bulk purchases of PP&E of $250,000 or greater. Land acquisitions and major alterations and renovations that provide additional building square footage are also capitalized regardless of acquisition cost amounts. Minor equipment costs and repairs, however, are charged to expenses as incurred. Property and equipment transferred to the FLETC from other agencies are recorded at the net book value at the date they are transferred to the FLETC. Costs for construction projects are recorded as construction-in-progress until completed, and are then reclassified to a depreciable asset. There are no restrictions on the use or convertibility of PP&E.

Depreciation is calculated on a straight-line basis over estimated useful lives ranging from five to thirty years, once the asset has been placed in service. Land is not depreciated. Buildings acquired under capital leases are amortized over the lease term. Routine repairs and maintenance are expensed as incurred.

The FLETC also capitalizes its internal use software. Internal use software includes purchased commercial off-the-shelf software (COTS), internally developed, or contractor-developed. For COTS, the FLETC capitalizes the amount paid to the vendor for the software. For contractor developed software, the capitalized costs include the amount paid to a contractor to design, program, install and implement the software. Capitalized costs for internally developed software include the full costs (direct and indirect costs) incurred during the software development phase. Amortization of the capitalized software is calculated using the straight-line method beginning on the date of acquisition, if purchased, or when successfully tested and placed in use, if developed.

H. ACCRUED PAYROLL AND OTHER BENEFITS

Accrued payroll and other benefits include annual leave, compensatory time, and other leave time. The accrual for these items represents the leave time earned by the FLETC employees but not taken, and is computed using current compensation rates. Sick leave is not accrued when earned, but is expensed when taken as employees do not get paid for unused sick time upon separation from the organization.

I. PENSION COSTS AND OTHER RETIREMENT BENEFITS
The FLETC recognizes the full annual cost of its civilian employees' pension benefits; however, the assets of the plan and liability associated with these costs are recognized by the Office of Personnel Management (OPM) rather than the FLETC.

In general, employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), while employees hired after that date participate in the Federal Employees' Retirement System (FERS). The FLETC and its employees contribute to the retirement plan at a certain percent of base pay as provided by the OPM. The cost of providing these benefits by OPM is more than the amount contributed by the FLETC and its employees. The difference between the full annual cost of CSRS and FERS retirement plans and the amount paid by the FLETC is recorded as an imputed cost on the FLETC's Consolidated Statement of Net Cost, and also as an offsetting imputed financing source in the FLETC's Consolidated Statement of Changes in Net Position.

Similar to the retirement plans, the OPM, not the FLETC, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHB) and the Federal Employees Group Life Insurance Program (FEGLI). However, the FLETC is required to report the full annual cost of providing these benefits for its retired employees, as well as reporting contributions made for active employees. The difference between the full annual cost and the amount paid by the FLETC is recorded as an imputed cost and an offsetting imputed financing source in the accompanying financial statements.

J. FEDERAL EMPLOYEE BENEFITS PAYABLE – FECA ACTUARIAL LIABILITY

The Federal Employees Compensation Act (FECA) program is administered by the U.S. Department of Labor (DOL) and provides income and medical cost protection to covered Federal civilian employees who have been injured on the job or have incurred a work-related occupational disease. Beneficiaries of employees whose death is attributable to a job-related injury or occupational disease receive compensation. The DOL initially pays valid FECA claims for all of the Federal government and generally seeks reimbursement two fiscal years later from the Federal agencies employing the claimants. Estimated future FECA costs are determined by the DOL for the DHS, which in turn, allocates to the FLETC actuarial liabilities not covered by budgetary resources. This governmental liability is determined by using the paid losses projected over the next 37-year period. This method utilizes historical benefit payment patterns, actuarial assumptions for COLA, interest, etc, related to a specific incurred period to predict the ultimate payments related to that period.

K. LITIGATION CONTINGENCIES AND SETTLEMENTS

Probable and estimable unsettled litigation and claims against the FLETC are recognized as a liability and expensed for the full amount of the expected loss. Expected litigation and claim losses include settlements to be paid from the Treasury Judgment Fund on behalf of the FLETC and settlements to be paid from the FLETC appropriations. Settlements paid from the Judgment Fund for the FLETC are recognized as an expense and imputed financing source at the time FLETC is notified of the payment.

L. ENVIRONMENTAL CLEAN-UP LIABILITY

Cleanup costs, which are the costs of removing, containing and/or disposing of hazardous waste, represent an environmental liability. The FLETC records an accrual for the estimated total cleanup costs associated with its firearms ranges and buildings. Cost estimates are subject to revision as a result of changes in technology, environmental laws and regulations, inflation and plans for remediation. Any changes in the estimated total cleanup costs are expensed when re-estimates occur and the liability balance is adjusted.

M. EARMARKED FUNDS

Earmarked funds are financed by specifically identified revenues and are required by statute to be used for designated activities or purposes.

Earmarked non-exchange revenue and other financing sources, including appropriations and net cost of operations, are required to be shown separately on a statement of changes in net position. The portion of cumulative results of operations attributable to earmarked funds is required to be shown separately on both a statement of changes in net position and a balance sheet. The FLETC has only one earmarked fund, designated for gifts and donations. In the balance sheet and the statement of changes in net position impact is approximately $500. Due to the immaterial nature, earmarked activity is not separately reported in the financial information presented.

N. REVENUES AND FINANCING SOURCES

The FLETC receives the majority of its funding through annual, multi-year, no-year, and trust fund appropriations that may be used within statutory limits for operating and capital expenditures. Appropriations are recognized as financing sources when the related liability is incurred. The FLETC also enters into reimbursable agreements with DHS and other entities for services or goods provided, principally for training related costs and construction. Revenue from reimbursable agreements is recognized when the services or goods are provided.

Basic Training

Pursuant to the OMB/Treasury/FLETC funding policy that was approved in FY 1987, the FLETC is responsible for the direct cost of basic training while the Federal partner organizations are responsible for the cost of travel and per diem enroute, and reimburse the FLETC for actual costs of meals and lodging. The direct cost of basic training includes items such as the following:

- Utilities/janitorial services for classrooms
- Printed materials
- Role players
- Support contracts
- Ammunition
- Materials and supplies

Advanced Training

For advanced training courses, in addition to the travel, meal and lodging costs, the Federal partner organizations reimburse the FLETC for any variable course costs incurred. State and local agencies normally pay for the full actual costs of training.

Reimbursable Construction

The Federal partner organizations reimburse FLETC for the actual construction and program management costs incurred by FLETC, as agreed upon in the interagency reimbursable agreements. Actual costs include architect and engineering contract, construction contract, program management staff salary and travel, etc.

O. IMPUTED COSTS/FINANCING SOURCES

In certain instances, operating costs of the FLETC are paid out of funds appropriated to other Federal agencies. For example, by law, OPM pays certain costs of retirement programs, and certain legal judgments against the FLETC are paid from a Judgment Fund maintained by the Department of the Treasury. When costs that are identifiable and directly attributable to the FLETC operations are paid by others, the FLETC recognizes these amounts as operating expenses and as imputed financing sources in its Consolidated Statements of Changes in Net Position. In addition to the benefits described above and in Note I, the FLETC recognizes intra-departmental imputed costs for law enforcement instructors detailed from the other DHS bureaus. Effective October 1, 2009, FLETC adopted the provisions of SFFAS No. 30 (Inter-Entity Cost Implementation) and started recognition of intra-governmental imputed costs for law enforcement instructors detailed to FLETC from other non-DHS federal agencies and the use of the former Naval Weapons Station, Goose Creek, Charleston, SC. As a result of the implementation of this new accounting standard, approximately $13M of additional imputed costs was recognized in FY2009.

P. TAX STATUS

As an entity of the U.S. Government, the FLETC is exempt from all income taxes imposed by any governing body, whether it is a Federal, state, local or foreign government, or a Commonwealth of the United States.

Q. USE OF ESTIMATES

Management has made certain estimates and assumptions in the reporting of the financial statement balances and associated disclosures. Actual results could differ from these estimates. Significant estimates include useful lives of property, plant and equipment, the year-end accruals of accounts payable, environmental liabilities, accrued and actuarial workers' compensation liabilities (FECA), contingent legal liabilities and allowances for doubtful accounts receivable.

R. RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to current year presentation.

NOTE 2: NON-ENTITY ASSETS

There are no non-entity assets as of September 30, 2009 and 2008. All assets are entity assets of the FLETC.

NOTE 3: FUND BALANCE WITH TREASURY

A. Fund Balance with Treasury, by fund type, consisted of the following as of September 30, 2009 and 2008 (in thousands):

	2009	2008
General Appropriated Funds	$ 206,736	$ 172,275
Other Funds	977	938
Total	$ 207,713	$ 173,213

General fund balances consist of amounts from direct and reimbursable appropriations which are available to fund the operations of the FLETC. Other fund balances result from the FLETC's authority to use the proceeds from the sale of surplus items and recyclable materials to purchase like-items. If these funds are not used for this restricted purpose within two years, the FLETC is required to transfer the funds to the Department of Treasury.

A. The status of Fund Balance with Treasury consisted of the following as of September 30, 2009 and 2008 (in thousands):

	2009	2008
Unobligated Balance		
Available	$ 134,391	$ 116,949
Unavailable	20,460	23,429
Obligated Balance not yet Disbursed	51,885	31,897
Restricted Unobligated Balance - Deposit Funds	977	938
Total	$ 207,713	$ 173,213

Agencies must close appropriation accounts available for obligation during a definite period at the end of the fifth fiscal year after the account's obligation availability ends. The FLETC canceled $3.9 million and $3.5 million at September 30, 2009 and 2008, respectively.

NOTE 4: ACCOUNTS RECEIVABLE, NET

A. Intragovernmental Accounts Receivable

Intragovernmental accounts receivable from other Federal agencies as of September 30, 2009 and 2008 totaled $36.6 million and $26.9 million, net of an allowance for doubtful accounts totaling $0.6 million and $0, respectively.

B. Public Accounts Receivable

Accounts receivable due from the public are recognized for law enforcement training provided to state, local and foreign governments. Receivables due from the public total $827 thousand and $1.2 million, net of an allowance for doubtful accounts totaling $14 thousand and $25 thousand, as of September 30, 2009 and 2008, respectively.

NOTE 5: PROPERTY, PLANT, AND EQUIPMENT, NET

Property, plant, and equipment consists of the following as of September 30, 2009 and 2008 (in thousands):

Category	Service Life (Years)	Acquisition Cost 2009	Acquisition Cost 2008	Accumulated Depreciation/Amortization 2009	Accumulated Depreciation/Amortization 2008	Net Book Value 2009	Net Book Value 2008
Land and Land Rights	N/A	$ 5,450	$ 5,450	$ -	$ -	$ 5,450	$ 5,450
Construction in Progress	N/A	27,978	11,333	-	-	27,978	11,333
Buildings, Structures and Facilities	20-30	621,104	598,593	170,410	147,083	450,694	451,510
Equipment:							
ADP	5	1,233	1,233	789	564	444	669
Vehicles	5-8	11,781	6,996	5,017	4,355	6,764	2,641
Other Equipment	5	7,180	8,153	2,472	4,061	4,708	4,092
Assets Under Capital Leases	20	68,164	68,164	22,162	18,754	46,002	49,410
Leasehold Improvements	10-30	4,275	-	503	-	3,772	-
Internal Use Software	3	7,037	-	4,052	-	2,985	-
Internally Developed Software	N/A	21,467	15,967	-	-	21,467	15,967
Total Property, Plant and Equipment		**$ 775,669**	**$ 715,889**	**$ 205,405**	**$ 174,817**	**$ 570,264**	**$ 541,072**

NOTE 6: OTHER ASSETS

Other intragovernmental assets are comprised of $1.8 million and $0.4 million as of September 30, 2009 and 2008, respectively, for advances paid to the DHS Working Capital Fund, OPM, and the DOI GOVWORKS.

NOTE 7: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources consist of the following at September 30, 2009 and 2008 (in thousands):

	2009	2008
Intragovernmental		
Accrued FECA Liability	$ 3,685	$ 3,839
Other Unfunded Employment Related Liability	27	-
Total Intragovernmental Not Covered by Budgetary Resources	3,712	3,839
Public		
Federal Employee and Veterans Benefits:		
Actuarial FECA Liability	19,344	17,459
Accrued Annual Leave	8,726	8,193
Environmental Cleanup Liability	22,214	21,006
Capital Lease Liability	53,955	56,499
Other	90	1,672
Total Public Not Covered by Budgetary Resources	104,329	104,829
Total Liabilities Not Covered by Budgetary Resources	108,041	108,668
Total Liabilities Covered by Budgetary Resources	46,682	34,424
Total Liabilities	$ 154,723	$ 143,092

The FLETC anticipates that the liabilities not covered by budgetary resources will be funded from future budgetary resources when required.

NOTE 8: ACCRUED PAYROLL

The FLETC's accrued payroll and benefits balances as of September 30, 2009 and 2008 are comprised as follows (in thousands):

	2009	2008
Accrued Payroll and Benefits	$ 5,414	$ 6,497
Accrued Annual Leave	8,726	8,193
Total Accrued Payroll and Benefits	$ 14,140	$ 14,690

NOTE 9: ENVIRONMENTAL CLEAN-UP LIABILITY

The FLETC is legally responsible for cleaning up its sites with environmental contamination based on compliance with Federal, state and/or local environmental laws and regulations. The primary Federal laws associated with environmental cleanup are the Comprehensive Environmental Response, Compensation, and Liability Act and the Resource Conservation and Recovery Act.

The FLETC has recorded $22.2 and $21.0 million for environmental cleanup cost liability as of September 30, 2009 and 2008, respectively. The amount represents the total estimated cleanup costs for 34 firing ranges and for lead-based paint removal at all locations. Currently, there are no plans to close or clean up the ranges; however, the estimated costs of future cleanup represent a liability for financial reporting purposes.

The estimated costs recognized are based on the most current information and prior experience, as well as environmental studies, but are monitored on an ongoing basis. Cost estimates are subject to revision as a result of changes in technology, environmental laws and regulations, inflation and plans for remediation. Any changes in the estimated total cleanup costs are expensed when re-estimates occur and the liability balance is adjusted.

NOTE 10: OTHER LIABILITIES

Other liabilities are comprised of the following as of September 30, 2009 and 2008 (in thousands):

	2009			2008		
	Current	Non-Current	Total	Current	Non-Current	Total
Intragovernmental:						
Accrued FECA Liability	$ 1,526	$ 2,159	$ 3,685	$ 1,836	$ 2,003	$ 3,839
Other Unfunded Employment Related Liability	27		$ 27			
Employer Contributions and Payroll Taxes Payable	1,331	-	1,331	713	-	713
Total Other Intragovernmental	$ 2,884	$ 2,159	$ 5,043	$ 2,549	$ 2,003	$ 4,552
Public:						
Contingent Legal Liabilities	$ -	$ 90	$ 90	$ -	$ 852	$ 852
Liability for Advances and Prepayments	3	-	3	9	-	9
Other Accrued Liabilities	-	978	978	-	939	939
Total Other Nongovernmental Liabilities	$ 3	$ 1,068	$ 1,071	$ 9	$ 1,791	$ 1,800

NOTE 11: CAPITAL LEASES

In FY 2001 and FY 2002, the FLETC entered into 20-year leases for the construction and operation of three private, hotel-type facilities to meet an urgent need for additional law enforcement student housing. The FLETC records the net present value of the net lease payments for the three facilities as a capital lease liability, with the minimum lease payments allocated between the reduction of the capital lease liability and interest expense. The unamortized capital lease liability is $53.9 million and $56.5 million as of September 30, 2009 and 2008, respectively.

Estimated future minimum lease payments under capital leases are as follows as of September 30, 2009 (in thousands):

Fiscal Year		
2010	$	6,103
2011		6,103
2012		6,103
2013		6,103
2014		6,103
Beyond 2014		51,596
Total Future Lease Payments		82,111
Less: Imputed Interest		(24,643)
Less: Executory Costs		(3,513)
Net Capital Lease Liability	$	53,955

NOTE 12: COMMITMENTS AND CONTINGENCIES

The FLETC is involved in various administrative and legal proceedings incidental to its operations. The estimated contingent liability recorded at September 30, 2009 and 2008 is $90 and $852 thousand, respectively. Other claims for which loss probability is reasonably possible are estimated to be $275 thousand at September 30, 2009. At September 30, 2008, the range of pending claims for which loss probability is reasonable possible is estimated to range from $5 to $380 thousand. Management vigorously contests all claims and lawsuits.

In addition to its lease commitments, the FLETC has funded contractual agreements and other obligations for goods and services that have been ordered but not yet received at fiscal yearend.

NOTE 13: INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

The FLETC provides law enforcement training services to other Federal agencies and state and local governments. Also, the FLETC provides program management services to DHS and other Federal agencies for certain construction projects. Goods and services needed by the FLETC to deliver services are procured from other Federal agencies (intragovernmental costs) or from commercial sources (public costs). Intragovernmental expenses relate to the source of goods and services purchased by the FLETC, and not to the classification of the related revenue. Offsetting collections or reimbursement costs for training and construction management services are exchange revenue from other Federal agencies (intragovernmental) and from non-Federal entities (public). The purpose of this classification is to enable the Federal government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue. Costs and exchange revenue associated in providing services for the years ended September 30, 2009 and 2008 are as follows (in thousands):

	2009	2008
Federal Law Enforcement Training		
Gross Costs - Intragovernmental	$ 62,161	$ 40,788
Gross Costs - With the Public	342,236	332,735
Total Program Costs	404,397	373,523
Earned Revenue - Intragovernmental	87,777	77,212
Earned Revenue - With the Public	1,411	2,060
Total Earned Revenue	89,188	79,272
Reimbursable Construction		
Gross Costs - Intragovernmental	756	1,693
Gross Costs - With the Public	59,336	86,244
Total Program Costs	60,092	87,937
Earned Revenue - Intragovernmental	60,600	87,283
Earned Revenue - With the Public	-	-
Total Earned Revenue	60,600	87,283

NOTE 14: APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Apportionment categories are determined in accordance with the guidance provided in OMB Circular A-11, Preparation, Submission and Execution of the Budget. Category A represents resources apportioned for each calendar quarter in the fiscal year. Category B represents resources apportioned on a basis other than calendar quarters, such as time periods other than quarter, activities, projects, objects or a combination thereof. Obligations incurred, which are all Category B, for the years ended September 30, 2009 and 2008 are (in thousands):

Category B	2009	2008
Direct	$ 288,860	$ 285,278
Reimbursable	171,814	150,195
Total	$ 460,674	$ 435,473

NOTE 15: EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

The reconciliation below explains the differences between the 2008 Combined Statement of Budgetary Resources and the actual amounts reported in the Budget of the United States Government. Amounts are in millions. Since the FY 2009 financial statements are published before the Budget, the FLETC is reporting for FY 2008 only. The FY 2009 results are expected to be published in the 2011 Budget of the United States in February 2010. The Budget of the U.S. Government can be found at the website, www.whitehouse.gov.

	Budgetary Resources	Obligations Inccurred	Net Outlays
FY 2008 Combined Statement of Budgetary Resources	$ 576	$ 435	$ 288
Differences			
Unobligated balances & recoveries - Expired Funds	(23)	-	-
Unfilled customer orders balance not included in the Budget of the U.S. Government	(32)	-	-
FY 2008 Budget of the U.S. Government	$ 521	$ 435	$ 288

NOTE 16: UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered orders for appropriated and reimbursable funding as of September 30, 2009 and 2008 were approximately $132.4 and $135.4 million, respectively.

NOTE 17: INCIDENTAL CUSTODIAL COLLECTIONS

The FLETC collects immaterial custodial revenues that are incidental to its primary mission. The collections primarily represent students' payment for missing, lost or damage of government-owned articles while on training at FLETC, and rent for a communication tower acquired when FLETC purchased a parcel of land at Glynco, GA in FY 2004. When collected, these funds are deposited directly to the Treasury General Fund as miscellaneous receipts. The activity during the years ended September 30, 2009 and 2008 are (in thousands):

	2009	2008
Revenue Activity:		
Sources of Cash Collections		
Miscellaneous	$ 28	$ 26
Total Cash Collections	28	26
Total Custodial Revenue	**28**	**26**
Disposition of Collections:		
Transferred to Treasury General Fund Accounts	28	26
Total Disposition of Collections	**28**	**26**
Net Custodial Activity	**$ -**	**$ -**

NOTE 18: RECONCILIATION OF NET COST TO BUDGET

The reconciliation of budgetary obligations and non-budgetary resources available to the FLETC with its net cost of operations as of September 30, 2009 and 2008 is (in thousands):

	FY 2009	FY 2008
Budgetary Resources Obligated		
Obligations Incurred	$ 460,674	$ 435,473
Less: Spending Authority from Offsetting Collections and Recoveries	146,067	166,127
Obligations Net of Offsetting Collections and Recoveries	314,607	269,346
Less: Offsetting Receipts	28	26
Net Obligations	314,579	269,320
Other Resources		
Transfers In/Out Without Reimbursement	10,813	26,138
Imputed Financing from Costs Absorbed by Others	32,022	22,369
Other	-	164
Net Other Resources Used to Finance Activities	42,835	48,671
Total Resources Used to Finance Activities	357,414	317,991
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	18,932	(13,855)
Resources that Fund Expenses Recognized in Prior Periods	4,252	2,397
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	59,479	66,581
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	-	164
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	82,663	55,287
Total Resources Used to Finance the Net Cost of Operations	274,751	262,704
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	534	541
Increase in Environmental and Disposal Liability	1,208	92
Increase in Exchange Revenue Receivable	-	316
Other	1,884	3,806
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	3,626	4,755
Components not Requiring or Generating Resources		
Depreciation and Amortization	30,533	27,491
Revaluation of Assets or Liabilities	173	(45)
Other	5,618	-
Total Components of Net Cost of Operations that will not Require or Generate Resources	36,324	27,446
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	39,950	32,201
Net Cost of Operations	**$ 314,701**	**$ 294,905**

Required Supplementary Information (Unaudited)

DEFERRED MAINTENANCE

The FLETC performs maintenance on its facilities. Maintenance includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life.

Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period. The charts below present information on the FLETC's deferred maintenance as of September 30, 2009 and 2008. The information is measured by condition assessment survey, which includes periodic inspections of PP&E.

	Asset Condition /1. (check all applicable box with "x")			(in thousands) Deferred Maintenance Estimated Range	
Asset Category	Good	Fair	Poor	Low	High
Buildings, Structures, and Facilities	x	x	-	$32,797	$36,077
Equipment - Vehicles and Vessels	x	x	-	-	-
Equipment - Other	x	x	-	-	-
Stewardship/Heritage Assets	-	-	-	-	-
Total				$32,797	$36,077

As of September 30, 2008

	Asset Condition /1. (check all applicable box with "x")			(in thousands) Deferred Maintenance Estimated Range	
Asset Category	Good	Fair	Poor	Low	High
Buildings, Structures, and Facilities	x	x	-	$26,317	$29,087
Equipment - Vehicles and Vessels	x	x	-	-	-
Equipment - Other	x	x	-	-	-
Stewardship/Heritage Assets	-	-	-	-	-
Total				$26,317	$29,087

/1. Asset Condition

Good. Facility/equipment condition meets established maintenance standards, operates efficiently, and has a normal life expectancy. Scheduled maintenance should be sufficient to maintain the current condition, and there is no deferred maintenance on assets in good condition.

Fair. Facility/equipment condition meets minimum maintenance standards, but requires additional maintenance or repair to prevent further deterioration, increase operating efficiency, and to achieve normal life expectancy.
Deferred maintenance may need to be recognized.

Poor. Facility/equipment does not meet most maintenance standards and requires frequent repairs to prevent accelerated deterioration and provide a minimal level of operating function. In some cases, this includes condemned or failed facilities.

Other Accompanying Information
Part III

Other Accompanying Information (Unaudited)

IPIA REPORTING DETAILS

In FY 2009, the FLETC followed the guidance set forth in Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments, in assessing its programs for risk of improper payments and in testing the payment populations to support the assessed level of risk. The payment populations were segregated into three programs: Construction, Salaries and Expenses, and Law Enforcement Training. Each program was subjected to risk assessment factors established by DHS.

There were no programs identified as high risk of improper payments, as defined by Circular A-123, Appendix C. To be consistent with the DHS IPIA risk-based approach and efficient use of resources, the FLETC did not perform any sample testing of its IPIA programs in FY 2009.

The FLETC will continue to monitor its internal controls over the approval and payment process to sustain its low level of risk of improper payments.

FLETC Partner Organizations
3 Branches of Government
31 Member Departments and Independent Agencies
89 Total Partner Organizations

EXECUTIVE BRANCH:

Agency for International Development	Office of the Inspector General
Agriculture	U.S. Forest Service Office of the Inspector General
Central Intelligence Agency	Office of the Inspector General Office of Security
Commerce	Bureau of Industry and Security National Institute of Standards and Technology National Marine Fisheries Service Office of the Inspector General Office of Security
Corporation for National and Community Service	Office of the Inspector General
Defense	Air Force Office of Special Investigations Defense Criminal Investigative Service Defense Intelligence Agency Defense Logistics Agency National Geospatial Intelligence Agency National Security Agency Naval Criminal Investigative Service Pentagon Force Protection Agency Conservation Law Enforcement Consortium
Education	Office of the Inspector General
Energy	Office of the Inspector General Office of Health, Safety and Security
Environmental Protection Agency	Criminal Investigations Division Office of the Inspector General
Federal Deposit Insurance Corporation	Office of the Inspector General
General Services Administration	Office of the Inspector General
Health and Human Services	Food and Drug Administration National Institutes of Health Office of the Inspector General
Homeland Security	Citizenship and Inspection Services Customs and Border Protection Federal Air Marshals Federal Emergency Management Agency Office of Safety and Security Federal Protective Service Immigration and Customs Enforcement Office of the Inspector General Transportation Security Administration U.S. Border Patrol U.S. Coast Guard U.S. Secret Service
Housing and Urban Development	Office of the Inspector General Protective Services Division
Interior	Bureau of Indian Affairs Bureau of Land Management Bureau of Reclamation Fish and Wildlife Service

	National Park Service Office of the Inspector General Office of Surface Mining, Reclamation and Enforcement U.S. Park Police
Justice	Bureau of Alcohol, Tobacco and Firearms Federal Bureau of Prisons Federal Bureau of Investigations Police Office of the Inspector General U.S. Marshals Service
Labor	Office of the Inspector General Office of Labor-Management Standards
National Aeronautics and Space Administration	Office of the Inspector General
National Railroad Passenger Corporation	Amtrak Police Amtrak Office of Security, Strategy and Special Operations
Nuclear Regulatory Commission	Office of the Inspector General
Office of Personnel Management	Office of the Inspector General
Railroad Retirement Board	Office of the Inspector General
Small Business Administration	Office of the Inspector General
Smithsonian Institute	National Zoological Park Office of Protection Services
Social Security Administration	Office of the Inspector General
State	Bureau of Diplomatic Security Office of the Inspector General
Tennessee Valley Authority	Office of the Inspector General TVA Police
Transportation	Office of the Inspector General Federal Aviation Administration
Treasury	Bureau of Engraving and Printing Financial Crimes Enforcement Network Internal Revenue Service Criminal Investigations Division Office of the Inspector General Treasury Inspector General for Tax Administration U.S. Mint Police
U.S. Postal Service	Office of the Inspector General
Veterans Affairs	Office of the Inspector General
JUDICIAL BRANCH:	
U.S Courts	Office of Probation and Pretrial Services Supreme Court Police
LEGISLATIVE BRANCH:	
U.S. Congress	Library of Congress Police Government Printing Office, Office of the Inspector General Government Printing Office, Office of Security U.S. Capitol Police
Other	Federal Reserve System

Principal Officials of the FLETC

Director .... Connie L. Patrick

Chief of Staff .... Jane C. Titus

Public Affairs Officer .... Peggy D. Dixon

Chief Counsel .... David Brunjes

Assistant Director, Washington Operations .... Brian Beckwith

Deputy Assistant Director .... Seymour Jones

Assistant Director - Chief Financial Officer .... Alan L. Titus

Deputy Assistant Director .... Donald Lewis

Deputy Director .... D. Kenneth Keene

Assistant Director, Glynco Training .... Mark Fallon

Deputy Assistant Director, Training Operations .... Charles Converse (Acting)

Deputy Assistant Director, Mission Integration .... Bryan Lemons

Assistant Director, Training Innovation and Management .... Michael R. Hanneld

Deputy Assistant Director, Training Management .... Valerie Atkins

Deputy Assistant Director, Training Support .... Stephanie Marr

Assistant Director, Field Training .... Cynthia J. Atwood

Deputy Assistant Director, Artesia Operations .... Joseph W. Wright

Deputy Assistant Director, Charleston Operations .... Wayne Anderson

Deputy Assistant Director, Cheltenham Operations .... Ted Sparks

Assistant Director, Administration .... Marcus Hill

Deputy Assistant Director, Assets Management .... Bradley W. Smith

Assistant Director - Chief Information Officer .... Sandra H. Peavy

Deputy Assistant Director, Chief Information Officer .... Raymond Barnett

information

The Agency Financial Report is available on the FLETC's website, www.fletc.gov, or a copy may be requested by contacting:

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Federal Law Enforcement Training Center
Glynco, GA 31524

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http://www.fletc.gov


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