DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General

Audit of ICE's Budgetary Status And Other Areas of Concern

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Preface

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

The attached report presents the results of the audit requested by former Representative Jim Turner, Ranking Member of the Select Committee on Homeland Security, U.S. House of Representatives. He requested that we evaluate budget problems at ICE, review the Federal Financial Management System, and consider other related areas of concern. We contracted with the independent public accounting firm KPMG LLP to perform the audit. KPMG is responsible for the attached auditor's report and the conclusions expressed in it.

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

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October 15, 2004

Inspector General
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KPMG LLP (KPMG) is pleased to submit this performance audit report, *Audit of ICE's Budgetary Status and Other Areas of Concern,* in fulfillment of our contract with the Department of Homeland Security (DHS) – Office of Inspector General (OIG). The OIG engaged us to evaluate certain budgetary and financial system matters at Immigration and Customs Enforcement (ICE), as identified in a letter from former Representative Jim Turner, Ranking Member of the Select Committee on Homeland Security, U.S. House of Representatives. A list of these concerns is presented in section 1.0 of this report.

We conducted our audit from August 2, 2004 through October 15, 2004, in accordance with *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States, except for certain limitations as described in section 1.3. The purpose of this report is to communicate the results of our efforts. As such, we have captured in section 2.0 a detailed discussion of our findings pertaining to each issue or concern expressed in the Representative's letter.

Since October 15, 2004, we have not performed any additional audit procedures with respect to this report, except as specifically noted in our report, and have no obligation to update this report or to revise the information contained therein to reflect events occurring subsequent to October 15, 2004. We note that the OIG has directed us to explore in further depth, through a separate audit and report, the causes and effects of ICE's budget difficulties, in response to Representative Turner's letter.

We have shared the results of our audit with the OIG and officials from ICE, Customs and Border Protection, Citizenship and Immigration Services, and the DHS Office of the Chief Financial Officer and have incorporated official comments from the Assistant Secretary, ICE, in section 4.0. Our report to you, dated October 15, 2004, represents our final report and completes the services agreed to be provided by us. We appreciate the opportunity to serve the OIG and DHS.

KPMG LLP

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EXECUTIVE SUMMARY

The Office of Inspector General (OIG) of the Department of Homeland Security (DHS) engaged KPMG LLP (KPMG) to review certain budget related issues pertaining to Immigration and Customs Enforcement (ICE) that were raised by former Representative Jim Turner, Ranking Member of the Select Committee on Homeland Security, in July 2004. A copy of Representative Turner's letter is included as Appendix C. Representative Turner requested that the OIG:

- Evaluate budget problems at ICE, particularly any violations of the Antideficiency Act;
- Review the Federal Financial Management System (FFMS)[1] due to allegations raised by ICE staff that it was not providing accurate, useful, and timely information to decision-makers; and
- Consider allegations raised by ICE staff with respect to the transfer of funds, on a daily basis from the Border and Transportation Security (BTS) Directorate, to avoid budget shortfalls; budget reporting challenges; temporary employees' status; travel database disruptions; funding for critical repairs; procurement tracking difficulties; and late vendor payments.

We conducted our audit from August 2, 2004, through October 15, 2004, according to *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States, except for certain scope limitations as described in section 1.3 - *Limitations.* The results of our audit are summarized below.

BUDGET ISSUES AT ICE

During FY 2004, ICE reported budget hardship and, based on our review of an internal memorandum, took steps to curtail spending. Additionally, the *Independent Auditors' Report* for DHS' FY 2004 financial statements[2] further noted accounting problems at ICE. The auditors' report concluded that weaknesses in controls at ICE might have allowed ICE to violate the Antideficiency Act or might have prevented management from knowing if ICE had violated the Antideficiency Act. As a result, we were unable to rely on ICE's processes or financial data to determine its compliance with the Act. Management represented that ICE was not in violation of the Antideficiency Act during FY 2004. We were unable to confirm employee concerns with respect to funds being transferred to ICE on a daily basis from BTS.

Moreover, during FY 2004, the following events negatively impacted the financial management resources of ICE:

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[1] FFMS is now marketed as Altimate

[2] *Independent Auditors' Report on DHS' FY 2004 Financial Statements,* Audit Report No. OIG-05-05, November 2004.

- ICE's financial workload increased because ICE began providing additional accounting functions for several major DHS components, and assets and operations were transferred both in and out of ICE as a result of DHS' organizational changes;
- ICE was unable to reach agreement with other DHS bureaus on the amount of reimbursements that they owed for services ICE provided until late in the fiscal year; and
- ICE experienced turnover in several key accounting positions, starting in the summer of 2003, and had insufficient resources to perform its financial management responsibilities.

FEDERAL FINANCIAL MANAGEMENT SYSTEM CAPABILITIES

ICE configured FFMS in a way that made funds management more difficult and made certain reports that users needed to do their jobs difficult to access. ICE officials recognized this concern but believed FY 2004 presented unique and complex problems as a result of the creation of three new DHS bureaus, including itself, out of two legacy agencies. ICE's configuration of FFMS has resulted in:

- Confusion at operating units about availability of funds for expenditures;
- Reporting difficulties, e.g., system queries were difficult to perform; and
- Lengthy learning curves and the need for greater training on the use of FFMS, especially for employees that transferred from agencies other than the legacy Immigration and Naturalization Service (INS).

In addition, when reviewing reports prepared by government oversight bodies or other independent consulting firms, we noted:

- Previous audit reports did not identify system flaws specific to FFMS;
- One independent systems review ranked FFMS highly when compared with other financial systems of the largest agencies transferred into DHS;
- Another independent systems review produced similar results, showing that FFMS was both scalable and compliant with requirements of the Joint Financial Management Improvement Program; and
- ICE had made enhancements and planned improvements to alleviate concerns.

STATUS OF OTHER CONCERNS RAISED BY REPRESENTATIVE TURNER

Our review of the remaining concerns raised by ICE staff to Representative Turner disclosed that:

- BTS mandated a hiring freeze in FY 2004, and ICE was unable to make temporary employees in the Office of the Principal Legal Advisor (OPLA) permanent due to insufficient budget resources;
- Travel Manager (TM) system operations were disrupted due to shortcomings during its deployment, resulting in delays in processing travel related requests;

- We were unable to substantiate the lack of funding for fuel, parts, ammunition, and critical repairs for aircraft;
- Procurements were difficult to track due to the lack of integration of the procurement system with FFMS and shortcomings in the procurement structure and process; and
- We did not identify any significant late vendor payments.

OVERALL RECOMMENDATIONS

ICE should address its accounting problems, as detailed in the *Independent Auditors' Report* for the FY 2004 DHS financial statements, in order to establish reliable financial reporting. Without reliable financial reporting, ICE will not be able to demonstrate that it has complied with the Antideficiency Act. Once ICE has reliable financial data, it should perform an in-depth review of its FY 2004 activities to determine whether there were instances of violations of the Antideficiency Act. Additionally, ICE should continue monitoring the FY 2004 *Salaries and Expense* account for compliance with the Antideficiency Act.

ICE should complete its reconfiguration of FFMS, ensuring that the changes to the system will correct the current problems caused by ICE's poor configuration of funds control. By so doing, better reports can be provided to users. Also, ICE should continue its efforts with respect to training employees on the new system features.

Moreover, while ICE has made strides in improving its procurement and contracts management function, there still remains room for improvement. ICE should continue with its plans to integrate the procurement system with FFMS to afford field office staff the ability to track, on a real time basis, the status of their procurement actions, track procurement commitments, and better assess the availability of their funds.

We have not made recommendations regarding temporary employees, the TM system, and vendor payments. ICE was not in a position to change temporary OPLA employees to a permanent status, ICE appeared to have implemented remediation actions for TM, and we were unable to validate significant problems with vendor payments within the time allotted for fieldwork. Recommendations to address deficiencies found by the financial statement auditors are contained in the *Independent Auditors' Report* for DHS' FY 2004 financial statements.

1.0 BACKGROUND

The creation of the Department of Homeland Security (DHS) resulted in the consolidation of 22 federal organizations and approximately 180,000 employees in March 2003. As a result of DHS' creation, the former U.S. Customs Service (Customs) and the Immigration and Naturalization Service (INS) were reorganized into three new bureaus, collectively called the Tri-bureaus: Immigration and Customs Enforcement (ICE), Customs and Border Protection (CBP), and Citizenship and Immigration Service (CIS).

Both CBP and ICE operate under DHS' Border and Transportation (BTS) Directorate. ICE's mission[3], as the "largest investigative arm of the DHS, is to [detect and eliminate] vulnerabilities in the nation's border, economic, transportation, and infrastructure security". ICE employs approximately 20,000 employees to execute its mission.

Fiscal year (FY) 2004 was a year of significant change for ICE with respect to financial management and reporting. For the first time, ICE's budget reflected the new Tri-bureau reorganization, which necessitated the division of personnel, services, resources, assets, and liabilities among CBP, CIS and ICE. Additionally, ICE began providing accounting services for several significant components of DHS and other support services to CBP and CIS. ICE also experienced turnover in several key financial positions starting in the summer of FY 2003.

1.1 OBJECTIVES AND SCOPE

The Office of Inspector General (OIG) engaged KPMG LLP (KPMG) to review certain budget related issues pertaining to ICE that were raised by former Representative Jim Turner, Ranking Member of the Select Committee on Homeland Security, in a letter dated July 14, 2004. A copy of Representative Turner's letter is included as Appendix C. The objectives of the audit, as requested by Representative Turner, were to:

- Examine budget problems at ICE, particularly violations, if any, of the Antideficiency Act;
- Review ICE's Federal Financial Management System (FFMS) due to allegations that it was not providing accurate, useful, and timely information to decision-makers; and
- Consider several concerns raised by ICE staff regarding the transfer of funds, from BTS to ICE, on a daily basis to avoid budget shortfalls; budget reporting matters; temporary employees' status; travel database disruptions; money for critical repairs; procurement tracking challenges; and late vendor payments.

We conducted the work from August 2, 2004, through October 15, 2004, at Washington, D.C. locations for ICE. We focused our analysis of budget related data and information to FY 2004. Due to the nature of the audit objectives, we limited our consideration of internal controls to financial reporting for the first objective and to gaining an understanding of relevant processes for the second and third objectives.

[3] ICE's mission and responsibilities are captured on the Fact Sheet located at http://www.ice.gov/graphics/news/factsheets/100604ice.html.

The purpose of this report is to present the results of our audit (section 2.0), and our recommendations (section 3.0). We performed the audit according to *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States, except for certain scope limitations as described in section 1.3 - *Limitations*.

1.2 APPROACH

To achieve the objectives of our audit and address the critical areas included in the project scope, our review consisted of interviews, document reviews, and certain corroborative procedures, as discussed below:

- ***Internal interviews*** – We met with and interviewed key officials within ICE's Financial Reporting, Procurement, Budget, Human Resources, and Information Systems divisions to understand the various functions and activities, critical information systems, and controls (checks and balances) for relevant functions associated with the issues noted in Representative Turner's letter. We also interviewed officials at CBP, CIS, and DHS. Additionally, to gain a better understanding of FFMS, we interviewed various Savantage[4] officials and functional staff and observed the demonstration of FFMS functionality: specifically, ICE's setup and maintenance configuration for FFMS, financial reports generated against the current configuration, financial reports under development, and other configuration capabilities of FFMS that ICE was not utilizing.
- ***Document reviews*** – To corroborate information gathered from the various interviews, we reviewed internal documentation, i.e., memoranda, briefings, reimbursable agreements, and schedules, and external reports and documents relevant to the specific issues that were available at the time of our evaluation. A list of such documents is presented in Appendix A. To better understand the budget authority allocated to ICE for FY 2004, we reviewed the President's Budget report and other OMB generated budget documents, as presented at OMB's Internet site.
- ***Corroboration - functional evaluation*** – We also reviewed and considered the results of internal assessments that management conducted, external audits and studies conducted by government oversight bodies and independent consultants, and the results of the FY 2004 DHS financial statement audit.

1.3 LIMITATIONS

We requested, through Representative Turner's Committee office, to speak with the ICE employees who raised the above issues with Representative Turner's staff to better focus our procedures. Members of Representative Turner's staff told us that the ICE employees were unwilling to meet or talk directly with representatives from either KPMG or the OIG. Therefore, lacking any specific information about the nature and extent of each concern, we could not target certain issues, as we would have preferred, to better apply our audit procedures. Instead, we focused our effort on establishing the timeframe during which the problems could have occurred and determining whether the general processes

[4] Savantage was the developer and vendor of FFMS.

in place during this timeframe could have caused, or significantly contributed to, the alleged problems.

Because the ICE employees who raised concerns with Representative Turner were unwilling to speak with KPMG or the OIG, we were unable to verify directly with them whether they continued to experience problems associated with ICE's budget situation or with FFMS.

Additionally, generally accepted government auditing standards require that we adequately plan the audit to encompass a methodology that will provide sufficient, competent, and relevant evidence to achieve the objectives of the audit, and then obtain such evidence to support our findings and conclusions. We were unable to perform detailed testing of budgetary transactions necessary to determine compliance with the Antideficiency Act because of deficiencies in ICE's accounting operations and financial reporting, as reported by ICE's external financial statement auditors, and the short audit timeframe allowed for fieldwork. The short audit timeframe also prevented us from extending our audit procedures, with respect to the other areas of concern, to sufficiently corroborate information provided to us by management. As such, we relied on internal memoranda and other supporting documents provided by management and the results of our interviews to form our conclusions.

Had we been able to perform additional procedures, or had we been able to speak with the ICE employees who raised concerns with Representative Turner's staff, our conclusions might have been different.

2.0 RESULTS OF AUDIT

2.1 BUDGET PROBLEMS AT ICE

In March 2004, ICE projected a budget deficit of over $1 billion for FY 2004. ICE attributed the shortfall to Tri-bureau reorganization issues ($717 million) and program operating challenges ($306 million). ICE officials said it did not receive sufficient budget authority to cover its responsibilities and the services it had to provide CBP and CIS, as a result of the Tri-bureau reorganization, although CBP and CIS had disagreements with ICE over how much ICE was owed. ICE officials also said that ICE's operating budget was squeezed by numerous budget rescissions and insufficient allocations to maintain FY 2003 staffing levels; cross train investigators; provide adequate volumes of detention beds; and upgrade journeyman pay grades for agents.

Based on interviews and documents provided by ICE, ICE settled approximately $607 million of the $717 million shortfall through reimbursable agreements and transferred-in budget authority. To cover the remaining budget gap ($416 million), ICE and BTS issued directives to cut costs through such methods as a hiring freeze and procurement and travel restrictions.

2.1.1 Compliance with the Antideficiency Act

Management Represented that ICE Was Not in Violation of the Antideficiency Act

Background: Representative Turner requested that we examine any violations of the Antideficiency Act. The Antideficiency Act prohibits agencies from obligating or spending more than their appropriations[5]. ICE officials said that ICE was not in violation of the Antideficiency Act during the year; however, the *Independent Auditors' Report* for DHS' FY 2004 financial statements[6] noted serious accounting problems at ICE that affected the reliability of its financial reporting. The financial statement auditors noted that during FY 2004:

- Errors in ICE's proprietary[7] and budgetary accounts were so pervasive that the auditors could not complete their audit procedures for ICE and the components it serviced;

[5] Generally, under the Antideficiency Act, agencies cannot (1) spend beyond the amount available in an appropriation unless authorized by law, (2) involve the government in any contract or other obligation for payment of money for any purpose in advance of appropriations unless authorized by law, and (3) accept voluntary services or employ personal services in excess of that authorized by law, except in cases of certain emergencies. See 31 USC §§ 1341-1351.
[6] *Independent Auditors' Report on DHS' FY 2004 Financial Statements*, Audit Report No. OIG-05-05, November 2004.
[7] According to Statement of Federal Financial Accounting Concepts No. 1, *Objectives of Federal Financial Reporting*, proprietary accounts are used to record assets and liabilities and other information on transactions not included in budgetary accounts. Reports based on proprietary accounts are said to present "financial position" and "results of operations". Budgetary accounts capture transaction information related to such things as budget authority and obligations.

- ICE financial systems, processes, and control activities were inadequate to provide accounting services for itself and the other DHS operating units it serviced;
- ICE fell behind in the performance of basic accounting functions such as account reconciliations, analysis of material abnormal balances, and proper budgetary accounting;
- ICE was unable to determine or record proper entries to its accounts to make them balance correctly; and
- Weaknesses existed in controls over the preparation, submission, and reconciliation to the general ledger of key budgetary reports[8].

The financial statement auditors also noted the following events during FY 2004 that led to the above conditions and that severely taxed the financial management resources of ICE:

- ICE's financial workload increased because ICE began providing additional accounting functions for several major DHS components, a decision finalized late in FY 2003 that left little time to thoroughly plan the FY 2004 transition. Further, ICE had to deal with the transfer-in and transfer-out of operations and assets associated with the creation of the Tri-bureaus;
- ICE was unable to reach agreement with other DHS bureaus on the amount of reimbursements they owed for services ICE provided until late in the fiscal year; and
- ICE experienced turnover in several key accounting positions starting in the summer of 2003 and had inadequate resources to properly address the above conditions.

Observations: The financial statement auditors concluded that weaknesses in controls at ICE might have allowed ICE to violate the Antideficiency Act or might have prevented management from knowing if ICE had violated the Antideficiency Act. We were unable to test management's representation that ICE was not in violation of the Antideficiency Act during the year because we could not rely on ICE's financial reports.

Based on our interview of DHS budget officials and review of DHS' requests to Congress to reprogram funds for ICE, we were unable to validate alleged concerns that funds were transferred to ICE on a daily basis from BTS. We note, however, that without specific instances or information from the employees who raised this concern with Representative Turner, it was not feasible to conduct further test work in this area, given the time restrictions.

<u>*Analysis of Clearing Accounts and SF-133*</u>

Background: Although we could not rely on ICE's financial reporting for determining compliance with the Antideficiency Act, we reviewed certain risk indicators. Specifically,

[8] The key budgetary reports referred to are the SF-132, *Apportionment and Reapportionment Schedule*, and the SF-133, *Report on Budget Execution*.

we considered ICE's clearing accounts[9], for the period from April 2004 through August 2004, and noted the balances that remained in these accounts at the end of the fiscal year[10]. We also scanned fiscal year-end SF-133[11] for ICE's largest Treasury account, *Salaries and Expenses (S&E)*, with total budgetary resources of $2.7 billion for FY 2004.

Our analysis of ICE's clearing account balances showed a significant increase in suspense account activity during the months of July and August 2004. Also, a significant net balance existed in ICE's clearing accounts at the end of the fiscal year. Significant clearing account balances indicate significant transaction amounts that have not been posted to proper general ledger accounts. When ICE eventually posts these transactions, they could potentially result in obligations being posted that are now unrecorded. ICE officials concurred that the clearing accounts could include unposted obligations. Additionally, the SF-133 showed relatively little remained in the S&E Treasury account to cover additional obligations for this account. For example, additional obligations could potentially occur because of the clearing of suspense accounts, such as when undelivered orders with other agencies are received but the actual costs exceed the original obligated amount.[12]

Observations: We could not rely on reported year-end balances because of ICE's financial reporting weaknesses, which included unsupportable proprietary and budgetary accounts, and inadequate controls over the preparation, submission, and reconciliation of key budgetary reports; however, if ICE's financial records were accurate, the $2.7 billion *Salaries and Expenses* account had relatively little funding available to cover potential unrecorded obligations at fiscal year-end. At the time of our fieldwork, this situation increased the uncertainty about whether the reported balance for this particular account would be sufficient to cover any potential unrecorded obligations subsequent to fiscal year-end. Such a determination, however, could not be made within the timeframe of this audit.

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[9] Clearing accounts, sometimes referred to as suspense accounts, are used to temporarily account for transactions that an agency knows belong to the Government while it waits for information that would allow it to match the transaction to a specific receipt or expenditure account. According to OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, Section 20.11, clearing accounts should not be used to mask an overobligation or overexpenditure of an expenditure account.

[10] Financial information supporting the activities within the clearing accounts for the month of September 2004 was not available at the end of fieldwork.

[11] The SF-133, *Report on Budget Execution and Budgetary Resources*, must be submitted to the Office of Management and Budget on a quarterly basis to monitor the status of an agency's budgetary resources. We obtained and scanned this data, subsequent to the completion of our fieldwork, at the time DHS submitted its budgetary information to the Department of Treasury.

[12] As undelivered orders are received, invoice amounts potentially could be more or less than the original recorded obligation. A net increase in obligations would reduce the balance of funds available as a cushion.

Review of Deobligations:

Background: ICE officials indicated to us that ICE deobligated[13] over $400 million at the end of the year. Deobligating funds is appropriate for such things as correcting errors or releasing funds when they are no longer needed; however, a violation of appropriations law could potentially occur if funds were deobligated but still required to fund activities for which they were originally obligated. ICE officials told us that the deobligations largely represented a reclassification of obligations from one category to another due to agreements put in place late in the fiscal year to reimburse ICE for services it had provided other bureaus. ICE officials said there was no effort to deobligate funds in order to make them available to cover a budget shortfall. Although we were unable to test management's assertion because of time constraints, as noted earlier, ICE received reimbursement and transferred-in budget authority of approximately $607 million, most of it late in the fiscal year, which is consistent with management's assertion.

Observations: ICE officials said that transfers of funds and reimbursable agreements put in place late in the fiscal year prompted a large reclassification of obligations and explained the significant deobligations at year-end. Working in tandem with the financial statement auditors, we attempted to substantiate whether or not deobligations were appropriately made at year-end, but were unable to finish our test procedures within the timeframe of this project.

2.2 FEDERAL FINANCIAL MANAGEMENT SYSTEM FUNCTIONALITY

FFMS is ICE's core financial management system and maintains ICE's official general ledger accounts, including its budgetary accounts. Other systems, such as travel and payroll systems, feed accounting data to FFMS.

According to Representative Turner's letter, his staff interviewed ICE employees at DHS headquarters and three large field offices. His letter cited the following allegations about FFMS:

- FFMS placed ICE at risk of violating the Antideficiency Act;
- Staff were unable to pinpoint funds availability for important functions;
- Interviewees lacked confidence in the accuracy, usefulness, and timeliness of FFMS reports to manage funds;
- FFMS did not provide consolidated information, so staff had to run multiple reports and manually combine data to get information on funds availability; and
- The department's decision to continue using FFMS was puzzling in light of Government Accountability Office (GAO) reports that allegedly exposed problems with FFMS and wide recognition that the system was inherently flawed.

[13] A deobligation is generally a "reversal" of an obligation or cancellation of a contract/order.

2.2.1 ICE's Configuration of FFMS Affected Controls, Reporting, and Ease of Use

Shortcomings in Funds Control:

Background: Agencies are required by the Antideficiency Act to have a system of administrative controls, also called funds control, to prevent the over obligation of appropriations. FFMS has the capabilities to provide such controls; however, ICE chose to set funds control within FFMS at a high organizational level rather than at individual operating units. Setting funds control at a high organizational level might have allowed headquarters to move funds more easily among appropriation sub-accounts, although we were unable to verify such transfers; however, with funds control set at this level, we observed that operating units could easily overobligate their budget allocations. Because of ICE's account structure, other units could then end up unexpectedly short of funds. Headquarters budget personnel also had the ability to move funds among these sub-accounts, with or without notice. ICE officials said this situation created uncertainty and difficulty tracking funds availability for both field and headquarters staff.

Reimbursable agreements for services provided by ICE to its customers (e.g., CBP and CIS) added further complexity to this situation. Throughout the first three quarters of fiscal year 2004, ICE continued to incur costs on behalf of CBP and CIS. In the absence of reimbursable agreements, internal budget reports indicated that ICE used its budget authority to fund the cost of services provided to CBP and CIS. Based on audit procedures aimed at understanding ICE's costing methodology and substantiating eventual reimbursable agreements, supporting documentation was not readily available or complete to allow us to verify the assignment of costs by customers. Given that the costs or expenditures were applied against ICE's budget authority, as opposed to reimbursable authority, ICE had difficulty tracking and accounting for the costs of services it provided to other bureaus under reimbursable agreements. As such, an ICE official indicated that ICE budget staff expended considerable effort identifying and reconciling reimbursable costs so as to properly reflect funds availability by program area.

Observations: As a result of ICE's configuration of FFMS, automated controls were not utilized to enforce budget limits at the operating unit level. This created uncertainty related to funds availability for operating units. We have noted, based on discussions with ICE officials and review of internal documentation related to planned changes to FFMS, that ICE is planning to implement funds control at a lower level, i.e., operating unit or program division and budget object class levels.

Reporting Difficulty:

Background: ICE's decision to set funds control at a high organizational level has also created reporting problems. The only reliable tally of funds availability was at the higher account level where the system enforced funds control. Also, ICE's funds allocation structure was not necessarily straightforward and could be complicated for operating units. As a result, units had to manipulate and analyze data to get reliable information on funds availability--a process that could be time-consuming and was considered inefficient by many personnel.

ICE officials also told us that, although FFMS could generate various reports, the user needed to know what setup "strings" or codes to use to get the best output. Because FFMS had numerous setup strings, making the correct selection could be difficult for a new user. We observed that when a requestor used inappropriate or unnecessary criteria in a query, FFMS had to "spool", or work its way, through the respective data, thus slowing report production. We were told that report production also slowed when payroll transactions were processed, but that the problem had been addressed by processing payroll after normal work hours. FFMS' vendor also said that some servers took longer to run reports.

Observations: Users indicated that they had to convert extracts of data into an *Excel* spreadsheet format and spend considerable time manipulating and analyzing the data to arrive at a true picture of funds availability. We observed during a demonstration of the system that, as a result of the current configuration, standard budget reports generated by the system did not provide meaningful information. We noted, however, that ICE has expended considerable effort developing and implementing a series of enhancements to FFMS to improve its performance, based on our review of screenshots and other related documents, and discussions with ICE officials and the FFMS vendor. We could not, however, verify that the users who spoke with Representative Turner's staff continued to experience problems with timeliness of FFMS reports. As discussed in *Background*, the users who contacted the Representative's office were unwilling to speak directly with either KPMG or the OIG.

ICE management told us that further improvements were either in progress or planned, including a modified query screen to show summary budget information in a more user-friendly format, along with detailed commitment, obligation, expenditure, and available balance information listed by object and sub-object class.

Lengthy Learning Curve and Inadequate Training:

Background: An independent study, discussed below, noted that employees transferring to ICE from the legacy U.S. Customs Service faced a significant learning curve when switching to FFMS. Some interviewees attributed the frustration with FFMS' reports to inadequate training. Also, some interviewees told us they had to work longer hours because of these reporting difficulties.

Observations: We noted a significant learning curve with FFMS, and some interviewees considered inadequate training to be a contributing factor in user frustration with FFMS' reports.

2.2.2 Previous Audit Reports Did Not Identify Flaws Specific to FFMS

Background: In his letter, Representative Turner was concerned about the department's decision to continue using FFMS for ICE despite problems reported by GAO. Based on our review of prior audit reports[14], legacy INS was criticized for not having an integrated financial management system; that is, INS' core financial system was not integrated with other stand-alone systems, resulting in difficulties producing financial statements. Prior to FY 2003, INS was also concurrently using both FFMS and its "old" financial systems to capture data and manage funds. In FY 2003, however, legacy INS completed the migration to FFMS.

Observations: Prior audit findings that we reviewed did not identify flaws specific to FFMS' functionality, but instead advocated the need for INS to move toward a unified financial management system environment.

2.2.3 FFMS Was Selected for Its Scalability and JFMIP Compliance

Background: ICE officials said two reports played a role in the decision to retain FFMS for ICE:

- In December 2002, in preparation for the official creation of DHS in March 2003, the consulting firm Science Applications International Corporation (SAIC)[15] conducted an analysis of the financial management processes and systems of the largest agencies transferring into the new Department. Those agencies were: (1) Federal Emergency Management Agency (FEMA), (2) INS, (3) Transportation Security Administration (TSA), (4) Coast Guard, (5) Customs, and (6) Secret Service. SAIC's analysis included an assessment of each agency's financial systems' compliance with JFMIP[16] system requirements.
- In August 2003, International Business Machines Corporation (IBM) performed a five-day rapid study comparing FFMS with Customs' Federal Financial System (FFS)[17], which was also used by CBP until FY 2005.

SAIC's study ranked the legacy INS' system (FFMS) highly, along with the Coast Guard's and TSA's systems,[18] for the number or level of system-oriented features[19] that support required JFMIP functions. Conversely, SAIC cited significant deficiencies or limitations

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[14] Our search led us to the following reports: the Department of Justice (DOJ) *Performance Accountability Report* (auditors' report on internal controls) for the past three years and the GAO-03-1134T report entitled *Department of Homeland Security: Challenges and Steps in Establishing Sound Financial Management*, released on September 10, 2003

[15] SAIC's final report, dated December 27, 2002, is entitled *Homeland Security Financial Systems Analysis Final Report*.

[16] JFMIP was a joint cooperative undertaking of the Office of Management and Budget, the Government Accountability Office, the Department of the Treasury, and the Office of Personnel Management, working in cooperation with each other and with operating agencies to improve financial management practices throughout the federal government. The principals have agreed to disband JFMIP in 2005.

[17] IBM's *Functional Comparison of the Federal Financial System and the Federal Financial Management System,* dated August 22, 2003.

[18] The Department of Transportation's Delphi System, an Oracle based system, supported TSA's financial management function. SAIC evaluated the Delphi system.

[19] System-oriented features encompass customization, automation, integration, applications, security, architecture, and standards.

with Customs' and the Secret Service's financial systems and moderate deficiencies or limitations with FEMA's system, with respect to the systems' ability to support all the JFMIP functions. Further, the study indicated that FFMS and the Coast Guard's systems were scalable; that is, they had the capability to be enhanced, reconfigured, or expanded to allow greater interface with other systems. As such, the study cited those two systems as possible host systems capable of supporting and cross-servicing other DHS agencies in the near-term; however, at the time of the SAIC study, the Coast Guard was in the process of fully implementing all modules of its financial system, with an expected completion date of January 2003. Also, although TSA's system ranked among the top JFMIP supportable systems, it was not considered a viable system to support or adapt to DHS' organization, as the system was managed by the Department of Transportation.

Moreover, IBM's study noted that FFS (Custom's financial system) was not JFMIP-compliant and not scalable because it was an "old mainframe system with a high level of already implemented customization." Conversely, the IBM study noted that FFMS, the legacy INS system, was scalable and compliant with JFMIP requirements. The IBM study, however, sounded a cautionary note with respect to FFMS' usability. Unlike FFS, FFMS did not have simple mainframe forms for user input, and its reporting module (screens and reports) was not user friendly. According to IBM, FFS' report module would generate ad hoc reports, and users were satisfied and comfortable with the system. Still, FFS did not produce financial statements, required nightly processing, lacked "drill down" capabilities, and could not download data to a spreadsheet.

When ICE was created, CBP was also planning to transition to a new financial management system. ICE officials said that switching to FFS, then to another new system, would have been disruptive and difficult for employees. Timing, therefore, also seemed to play a role in the decision to stay with FFMS.

Observations: SAIC and IBM assessments of FFMS were favorable in comparison with some of DHS' other financial systems. CBP's plan to move to a new financial system also appeared to play a role in retaining FFMS.

2.3 STATUS OF OTHER CONCERNS

Representative Turner asked the OIG to consider several concerns raised by ICE staff regarding temporary employees, travel databases, money for critical repairs, procurement tracking, and late vendor payments. Representative Turner associated these concerns with FFMS or ICE's budget issues. Representative Turner's staff was unable to provide us with specific cases underlying these general concerns, and the ICE employees who raised them were unwilling to speak directly with KPMG or the OIG. As such, we took a broad, top-down approach to investigating these concerns, given our restricted time and resources. Our approach was to identify a class of employees potentially affected by an issue, assess whether the concern was valid, and determine the cause of the concern. We interviewed key staff in ICE's Budget, Human Resources, Resource Management, and Air and Marine Operations (AMO)[20] divisions, and in the Office of the Principal Legal Advisor (OPLA) and Office of Investigations.

[20] AMO will transfer back to CBP in FY 2005.

2.3.1 Temporary Employees Were Unable to Become Permanent Due to Budget Difficulties

Background: Representative Turner said that due to a lack of funds, ICE was unable to notify temporary employees whether they would transition to permanent status. Our efforts to investigate this concern led us to OPLA. OPLA officials said they were unable to transition temporary legal positions to permanent status due to a funding shortfall.

OPLA officials said that, in the past, they typically employed attorneys on a temporary basis until the required background checks were completed or the attorneys passed the bar examination. This practice helped INS hire and retain attorneys, and it was considered just "a matter of time" before temporary attorneys became permanent. Almost always, the transition from temporary to permanent status was completed within an agreed upon timeframe; however, given a lack of funds in FY 2004 and expected budget difficulties in FY 2005[21], OPLA could not commit to making temporary employees permanent and filling vacant positions.

OPLA believed its funding shortfall was approximately $74 million. According to OPLA, INS' legal program originally had 975 legal positions. When the Tri-bureaus were created, approximately 86 percent of the positions, or 840, were transferred to ICE, but ICE's OPLA received only 24 percent of the legacy legal budget. To overcome some of the shortfall, OPLA said that it subsequently received $55 million from CBP and CIS, leaving a $19 million gap from OPLA's perspective. BTS also instituted a hiring freeze, so OPLA, in April 2004, ceased employing additional attorneys or transitioning current temporary employees to permanent status.

Observations: OPLA said it was unable to make temporary employees permanent because of a funding shortfall. Our interviews did not lead to any other systemic problems related to the permanent hiring of temporary employees; however, given the condition of ICE's budget, it is possible that situations similar to OPLA of which we were not aware could have occurred. As already noted, Representative Turner's staff was unable to provide us specific instances to investigate.

2.3.2 Travel Manager Disruptions and Processing Delays

<u>*Disruptions in Travel Manager System:*</u>

Background: Representative Turner reported employee concerns that ICE's travel system, Travel Manager (TM), was disrupted because of insufficient funds to meet travel obligations.

Observations: Based on our interviews with TM administrators, we identified only one disruption in service, for one and one-half days, which TM administrators said contributed to shortcomings in the TM system around the time of deployment.

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[21] Source: OPLA's briefing, dated September 8, 2004, and entitled 2005 *Funding Analysis for ICE's Office of the Principal Legal Advisor.* The figures presented in these documents were unaudited.

According to TM administrators, the shortcomings were related to the incorrect setup of budget and accounting codes within TM, causing the rejection of transactions, and the incorrect setup of document routing for funding and approval. Moreover, at the early stages of deployment, a user had to select from thousands of accounting codes to get a travel document processed, contributing to users' frustration[22]. As such, in April 2004, TM's administrators took TM offline to correct the routing problem and address other issues. Administrators said that FFMS was still available as a backup system for travelers to initiate their travel authorizations, although travelers might not have been aware of this.

Delays in Processing Travel Documents:

Background: Complaints about TM also included the length of time for travel documents to be processed. TM administrators said that on a nightly basis, data gets uploaded to FFMS for a budget and audit check[23], to ensure availability of funds and to ensure that the data meets TM's requirements. During this step, the system may reject documents, filed electronically by a traveler, for the following reasons:

- Funds may not be available;
- Funding (budgetary accounting) string may be incorrectly selected by the traveler;
- Source of funds (fund code) may be inaccurately selected by the traveler;
- Purpose of the trip (a required field) may not be indicated on the travel request; or
- Funding official/approver may be inappropriate.

TM does not notify the traveler when an underlying travel document is rejected, i.e., is in a "failed" status. As such, the traveler might assume that there have been delays in processing a travel document rather than a problem with the document itself. If notified of a rejection, however, the traveler could have an opportunity to correct the problem in a timely manner. Also, without notification regarding the status of a travel document, the traveler could also assume that the travel document was held up due to lack of funds, when the document might have been rejected because of other reasons.

Observations: ICE officials attributed concerns about delays to budget and audit check rejections, for which the TM system did not generate notifications to employees so that they could address the problems timely. Based on our interviews and reviews of internal documentation, ICE made major enhancements to TM from April 2004 through July 2004. Enhancements included simplifying the accounting codes, correcting the document routing problem, providing ongoing training, and providing a telephone help-line for users. ICE also added more servers to improve connectivity and reduce processing time. Charts and other documentation that we reviewed showed improvements, such as more travel documents passing TM's budget and audit checks in FY 2004, relative to the volume of requests. We were unable to verify, however, whether those who raised these

[22] Source: *Travel Manager's Road To Success Memorandum*, dated September 2004
[23] Budget check entails determining whether adequate funds are available to obligate the travel authorization or reimburse the travel claim.

concerns with Representative Turner continued to experience problems with the TM system. As discussed in *Background*, the users who contacted the Representative's office were unwilling to speak directly with either KPMG or the OIG.

2.3.3 Insufficient Funds for Inventory Purchases Could Not Be Supported

Background: According to Representative Turner's letter, employees were concerned that pilots had gone for months without knowing whether they had sufficient funds to acquire parts, fuel, and ammunition, or to perform critical repairs for their aircraft. ICE officials attributed these concerns to Air and Marine Operations (AMO), which transferred into ICE from legacy Customs. Before AMO transferred to ICE, AMO received its apportionment, or authority to spend funds, all at the beginning of the year. When AMO transferred to ICE, AMO started receiving quarterly apportionments.[24] According to an AMO budget official, AMO worked with its vendor, which provided inventory tracking and maintenance services, to plan and manage resources accordingly.

Observations: Based on our interviews of AMO budget staff and our reviews of relevant budget and procurement documents, we were not able to verify the employee concerns about insufficient funds for inventory purchases. It is important to note, however, that without specific instances or without information on the location of the problem, as raised to Representative Turner, it was not feasible to conduct further test work in this area, given time restrictions.

2.3.4 Lack of Integration Made Procurements Hard to Track

Background: Representative Turner's letter cited concerns from ICE employees about the difficulty in tracking procurements, such that financial personnel were unable to keep track of the availability of funds for procurements.

Observations: As GAO reported in July 2003[25], the responsibility for procuring goods and services was dispersed throughout legacy INS. In an attempt to improve or simplify the procurement process, legacy INS made some structural changes in December 2003. This procurement structure transferred into ICE at its creation. Despite the changes, however, many significant problems remained in ICE's procurement management and processes, as reported by GAO. We noted at the time of our audit that the procurement system still remained disconnected from FFMS. However, for FY2005, ICE has made the investment and is committed to integrating FFMS and the procurement system to allow for better management of procurements and better tracking of funds availability, especially at the field level.

[24] According to a Budget representative in AMO, AMO had historically received an annual apportionment of its budget at the onset of the fiscal year; however, as part of ICE, AMO was subjected to ICE's quarterly apportionments for FY 2004.
[25] Report to the Committee on Government Reform, House of Representatives (GAO-03-799), *Contract Management - INS Contracting Weaknesses Need Attention from the Department of Homeland Security*, dated July 2003

2.3.5 Untimely Vendor Payments Were Relatively Small

Background: According to Representative Turner's letter, ICE employees indicated that some vendors were not paid promptly because of FFMS problems. The Dallas Finance Center (DFC), which manages vendor payments, acknowledged that delays could occur if program offices did not input invoices into the system in a timely manner. Once invoices are in FFMS, however, the DFC said it "swept" the system to timely process invoices and schedule payments. They also said that when the Tri-bureaus were organized, some confusion existed as to which bureaus were responsible for vendor relationships and invoices. ICE officials believed that such problems were minimal at the time of our review and said that the vendor payment process was being improved.

Observations: Based on our inquiries, review of internal ICE studies, and review of the Department's financial statement audit work products, we found only insignificant instances of late payments to vendors. Specifically, internal studies indicated untimely invoice payments of less than two percent. The financial statement auditors statistically sampled 65 vendor payments and found that 4 invoices totaling approximately $1.5 million were not paid within 30 days of invoice receipt; however, for those 4 instances, ICE properly paid interest penalties, as required by law. We did not have sufficient time prior to completion of fieldwork to measure the impact of process inefficiencies or verify the status of process improvements.

3.0 RECOMMENDATIONS

We recommend that the Assistant Secretary, ICE, consider the following:

Budget Issues:

- Perform an in-depth analysis of ICE's FY 2004 obligations and expenditures, as well as its suspense account activities, to determine compliance with the Antideficiency Act, once it can produce reliable financial data.
- Continue monitoring the FY 2004 *Salaries and Expense* account for compliance with the Anti-Deficiency Act.

FFMS Functionality:

- Continue implementing changes to FFMS' configuration to better utilize its capabilities and correct the current problems with funds control and reporting.
- Continue training on the use of FFMS' improved functionality, especially covering funds control and reporting.

Procurement Tracking:

- Continue with its plans to integrate the procurement system with FFMS to manage procurement actions and track procurement commitments. By so doing, field office staff could have access, on a real time basis, to information that would allow them to better track the status of their procurement actions, better track procurement commitments, and better assess the availability of their funds.

We have not made recommendations regarding temporary employees, the TM system, and vendor payments. ICE was not in a position to change temporary OPLA employees to a permanent status, ICE appeared to have implemented remediation actions for TM, and we were unable to validate significant problems with vendor payments within the time allotted for fieldwork. Recommendations to address deficiencies found by the financial statement auditors are contained in the *Independent Auditors' Report* for DHS' FY 2004 financial statements.

4.0 MANAGEMENT'S RESPONSE AND OUR ANALYSIS

In a memorandum, dated April 7, 2005, from the Assistant Secretary, ICE, management provided an official commentary to these recommendations. Abstracts of ICE's comments are provided below, and the full text of the memorandum is presented in section 4.3.

4.1 RECOMMENDATIONS

Recommendation 1 - Budget Issues:

- Perform an in-depth analysis of ICE's FY 2004 obligations and expenditures, as well as its suspense account activities, to determine compliance with the Antideficiency Act, once it can produce reliable financial data.
- Continue monitoring the FY 2004 *Salaries and Expense* account for compliance with the Anti-Deficiency Act.

ICE's Comment - *ICE concurs in part with the recommendation. The response stated, "ICE's Office of Financial Management (OFM) is currently performing an in-depth analysis of FY2004 obligations and expenditures as part of FY2005 Clean Action Plan that will address full reconciliation of the impacted accounts. This review will be completed June 2005. ICE does not concur with the OIG's statement regarding the unreliability of the financial data."*

KPMG's Response - We find no basis for ICE's disagreement with our assessment of ICE's financial data reliability. Although ICE asserts that it monitored and managed its accounts to prevent violations, it did not have adequate controls in place to ensure success. As noted in our report, the FY 2004 DHS financial statement auditors' report for fiscal year 2004 reported pervasive errors in ICE's proprietary and budgetary accounts, which resulted in the financial statement auditors' inability to complete their audit procedures. As such, the financial statement auditors concluded that weaknesses in controls at ICE might have allowed ICE to violate the Antideficiency Act or might have prevented management from knowing if ICE had violated the Antideficiency Act.

Recommendation 2 - FFMS Functionality:

- Continue implementing changes to FFMS' configuration to better utilize its capabilities and correct the current problems with funds control and reporting.
- Continue training on the use of FFMS' improved functionality, especially covering funds control and reporting.

ICE's Comment - *ICE concurs in part with the recommendation. The response stated, "ICE will continue to implement changes to FFMS that will address user requirements, as well as enhance existing funds controls and reporting...However, the approval of future FFMS modifications must take into account DHS' plans and actions with respect to eMerge2, as well as the availability of funds and personnel resources. [KPMG's] report fails to recognize that in calendar year 2004 OFM provided FFMS training to 780 users from all 6 agencies....FFMS training continues on an "as required" basis...For these reasons we suggest replacing "design and conduct" with "continue training..." in this* *recommendation. ICE does not agree with the statement made on page 2, bullet 2, about the lengthy learning curve and need for greater training...Extensive FFMS training has been and continues to be provided. The status of ICE's budget also impacts the depth and scope of any additional FFMS training."*

KPMG's Response – We agree with ICE's suggestion to change our recommendation from "design and conduct training" to "continue training," but we have maintained our observation with respect to a lengthy learning curve for employees transferring to ICE from the legacy U.S. Customs Service.

Recommendation 3 - Procurement Tracking:

- Continue with its plans to integrate the procurement system with FFMS to manage procurement actions and track procurement commitments. By so doing, field office staff could have access, on a real time basis, to information that would allow them to better track the status of their procurement actions, better track procurement commitments, and better assess the availability of their funds.

ICE's Comment - *ICE concurs with the recommendation. The response stated, "a scope of work for the PRISM/FFMS interface has been prepared and cost data developed. Full implementation of this recommendation will be a high priority."*

KPMG's Response - We provide no further comment.

4.2 OTHER MATTERS

On pages 1 and 2 of the memorandum, dated April 7, 2005, from the Assistant Secretary, management disagreed with certain statements in our report. As previously noted, the full text of the memorandum is presented in section 4.3. We have evaluated such comments and have revised our report where we deemed necessary. In addition, in the following paragraphs, we provide KPMG's responses to certain of these management comments.

ICE's Comment – *The comment stated, "generally, because the employees who raised concerns with former Congressman Jim Turner's staff were unwilling to speak with the auditors, the auditors need to draw conclusions based on factual data versus speculation about the information they might have obtained from the employees."*

KPMG's Response – We drew conclusions and reported our findings based on information gathered while performing certain audit procedures. However, as we explained in section 1.3 - Limitations, we were unable to perform all of the procedures we believed necessary to achieve all the objectives of our audit. For example, interviewing the complainants was a key audit procedure that we were unable to perform, and, hence, we were required by generally accepted government auditing standards to describe any limitations on the scope of our audit; any applicable audit standards that were not followed; and how not following those standards could have affected the results of the audit. We believed that our conclusions, with respect to the audit objectives, might have been different had we been able to meet with the complainants to gather specific information about their allegations. Accordingly, we have discussed this and other limitations on the scope of our audit in our report.

ICE's Comment - *The comment stated, "ICE was requested by the Department of Homeland Security's Office of the Chief Financial Officer to assume additional accounting responsibilities for the Department and its components. As [the report] is currently written, the draft implies that ICE voluntarily assumed these additional accounting activities. ICE recommends [a] change to the language on page 1 [of the report to read]... ICE's financial workload increased significantly because ICE was asked to assume additional accounting functions for several DHS components...".*

KPMG's Response - On pages 2 and 8, we have revised the report to read "ICE's financial workload increased because ICE began performing additional accounting functions for several major DHS components..."

ICE's Comment - *The comment stated, "The discussion on page 8 concerning potential Antideficiency is conjecture and should not be included."*

KPMG's Response - Representative Turner requested that the auditors look particularly at any instances of ICE's violation of the Antideficiency Act. In addressing this key objective in our report, we clearly stated that this question could not be answered because we could not rely on ICE's financial reports, due to the condition of the financial reports and related controls. We further discussed the cause and effect of those conditions, as required by auditing standards. These conditions increased the risk that ICE could have violated the Antideficiency Act. Therefore, we believe that is what our report properly conveys.

ICE's Comment - *The comment stated, "ICE disagrees with the statement concerning the Federal Financial Management System (FFMS), made on page 11, paragraph 2 of the report, "FFMS as configured, did not readily accommodate the assignment of costs by customer, and therefore, ICE had difficulty in tracking and accounting for the cost of services it provided to other bureaus under reimbursable agreements." This statement ignores the significant delays in negotiating reimbursable agreements among the legacy agencies. Most of these agreements were not finalized until the fourth quarter of Fiscal Year (FY) 2004. Had agreements been completed prior to transition of the functions or in early FY 2004, FFMS would have been able to post all related transactions in a timely manner..."*

KPMG's Response – We have revised our report to explain the challenges ICE faced, with respect to tracking and assigning cost of services it provided to its customers. As noted on page 11 of our report, throughout the first three quarters of fiscal year 2004, ICE continued to incur costs on behalf of CBP and CIS, without the existence of reimbursable agreements. In the absence of reimbursable agreements, ICE applied such costs against its budget authority, as opposed to reimbursable authority. Therefore, ICE had difficulty assigning and tracking customer costs in its financial system. This resulted in the need for ICE's budget staff to expend considerable effort (a) tracking funds availability by program area, (b) identifying, reconciling and reclassifying reimbursable costs, and (c) negotiating and settling reimbursable agreements. Absent reimbursable agreements, there should have been a supportable mechanism in place to capture and assign costs by customer.

ICE's Comment - *The comment stated, "The reference to loss of several key accounting personnel (page 2, bullet 2) does not adequately describe the scope and impact of these losses...Because of ICE's financial circumstances and hiring restrictions, ICE was not able to recruit and select replacements. During this same time ICE assumed additional accounting responsibilities for the Department..."*

KPMG's Response - We believe our report appropriately noted ICE's operational challenges, including the loss of ICE's key accounting personnel and ICE's assumption of additional accounting responsibilities for the Department.

4.3 ASSISTANT SECRETARY OF THE U.S. IMMIGRATION AND CUSTOMS ENFORCEMENT MEMORANDUM

Office of the Assistant Secretary

U.S. Department of Homeland Security
425 I Street, NW
Washington, DC 20536

U.S. Immigration and Customs Enforcement

April 7, 2005

MEMORANDUM FOR:	Richard Skinner Acting Inspector General Department of Homeland Security
THROUGH:	Randy Beardsworth Acting Under Secretary Border and Transportation Security
FROM:	Michael J. Garcia Assistant Secretary
SUBJECT:	Office of Inspector General (OIG) Draft Report: *Audit of ICE's Budgetary Status and Other Areas of Concern*

The following is to advise you of the actions U.S. Immigration and Customs Enforcement (ICE) plans to take to implement the recommendations contained in the subject report. ICE concurs with the recommendations made in the report and has initiated steps to address the recommendations identified in the report. ICE would like to comment, however, on certain statements contained in the report:

- Generally, because the employees who raised concerns with former Congressman Jim Turner's staff were unwilling to speak with the auditors, the auditors need to draw conclusions based on factual data versus speculation about the information they might have obtained from these employees.

- ICE was requested by Department of Homeland Security's Office of the Chief Financial Officer to assume additional accounting responsibilities for the Department and its components. As it is currently written, the draft implies that ICE voluntarily assumed these additional accounting activities. ICE recommends the following change to the language on page 1: "ICE's financial workload increased significantly because ICE was asked to assume additional accounting functions for several DHS components…"

www.ice.gov

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Page 2

The discussion on page 8 concerning potential anti-deficiency is conjecture and should not be included. The OIG is currently reviewing whether ICE was in violation of the Antideficiency Act.

- ICE disagrees with the statement concerning the Federal Financial Management System (FFMS), made on page 11, paragraph 2 of the report, "FFMS, as configured, did not readily accommodate the assignment of costs by customer, and therefore, ICE had difficulty in tracking and accounting for the costs of services it provided to other bureaus under reimbursable agreements." This statement ignores the significant delays in negotiating reimbursable agreements among the legacy agencies. Most of these agreements were not finalized until the fourth quarter of Fiscal Year (FY) 2004. Had agreements been completed prior to transition of the functions or in early FY 2004, FFMS would have been able to post all related transactions in a timely manner. In addition, FFMS provides a control over the establishment of obligations against a reimbursable agreement's accounting string if the agreement has not been properly established in the system. ICE suggests the following statement more accurately reflects the situation: "FFMS provides controls for reimbursable agreements and allows for the accounting data to be available for posting all related transactions. Also, FFMS provides a control over the establishment of obligations against a reimbursable agreement's accounting string if the agreement has not been properly established in the system. In FY 2004, the late establishment of reimbursable agreements contributed to delays in placing the agreements in FFMS."

- The reference to loss of several key accounting personnel (page 2, bullet 2) does not adequately describe the scope and impact of these losses. ICE's Office of Resource Management (ORM) lost senior, experienced employees in finance and budget immediately preceding the transition and thereafter. Because of ICE's financial circumstances and hiring restrictions, ICE was not able to recruit and select replacements. During this same time ICE assumed additional accounting responsibilities for the Department. ICE suggests adding the following: "ICE lost very experienced, senior-level personnel and did not have funds available to recruit and select replacements. During this time, ICE financial management responsibilities grew substantially as they began servicing DHS directorates, including U.S. Citizenship and Immigration Services (CIS). Additionally ICE was integrating new activities and employees into the financial management systems, preparing and finalizing transition plans to incorporate the Federal Protective Service's (FPS) financial business in FY 2005 and transferring outstanding financial activities to U.S. Customs and Border Protection (CBP). In addition, all actions to reconcile and transfer Border Patrol and other impacted organizations occurred."

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Recommendation 1: Budget Issues:

- Perform an in-depth analysis of ICE's FY 2004 obligations and expenditures, as well as its suspense account activities, to determine compliance with the Antideficiency Act, once reliable financial data is produced.

- Continue monitoring the FY 2004 *Salaries and Expense* account for compliance with the Antideficiency Act.

Concur in Part: ICE's Office of Financial Management (OFM) is currently performing an in-depth analysis of FY 2004 obligations and expenditures as part of the FY 2005 Clean Action Plans that will address full reconciliation of the impacted accounts. This review will be completed by June 2005. ICE does not concur with the OIG's statement regarding the unreliability of the financial data. As currently configured, FFMS functionality provides for and requires funds management in support of Antideficiency Act requirements. In FY 2004, the accounts were monitored and managed to ensure violations did not occur. ICE "re-tooled" its financial system to limit the number of people with the ability to obligate prior year funding and developed a daily report to provide the status of FY 2004 prior year available funds. A central point of contact was named to process restorations and monitor available FY 2004 prior year funds. Implementation of these procedures has resulted in an increase in the control of prior year available funding and allowed ICE to prioritize requests for prior year funding. Any real, rather than potential, unfunded liabilities processed through FFMS will be clearly highlighted and identified through normal processing.

Recommendation 2: FFMS Functionality:

- Continue implementing changes to FFMS to correct the current problems with funds control and reporting.

- Design and conduct training on the use of FFMS' improved functionality, especially covering funds control and reporting.

Concur in Part: ICE will continue to implement changes to FFMS that will address user requirements, as well as enhance existing funds control and reporting. In calendar year 2004, the following enhancements were made to FFMS: 10 new reports were developed; 6 reports redesigned and enhanced; 6 screen/processing enhancements; and 3 data migration efforts completed. However, the approval of future FFMS modifications must take into account DHS' plans and actions with respect to eMerge2, as well as the availability of funds and personnel resources. The OIG report fails to recognize that in calendar year 2004 OFM provided FFMS training to 780 users from all 6 agencies. To further complicate this training effort, many users did not attend their scheduled training, requiring OFM to conduct additional classes. FFMS training continues on an "as required" basis. Training videos are available for use at any time for new or refresher training. For these reasons we suggest replacing "design and conduct" with

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"continue training..." in this recommendation. ICE does not agree with the statement made on page 2, bullet 2, about the lengthy learning curve and need for greater training. Extensive FFMS training has been and continues to be provided. The status of ICE's budget also impacts the depth and scope of any additional FFMS training.

Recommendation 3: Procurement Tracking:

- Continue with plans to integrate the procurement system with FFMS to manage procurement actions and track procurement commitments. By so doing, field office staff could have access, on a real time basis, to information that would allow them to better track the status of their procurement actions, better track procurement commitments, and better assess the availability of their funds.

Concur: ICE concurs with adopting this recommendation. A scope of work for the PRISM/FFMS interface has been prepared and cost data developed. Full implementation of this recommendation will be a high priority ICE will work to implement the recommendation and will be able to accelerate the implementation when additional resources are made available.

APPENDIX A: LIST OF DOCUMENTS REVIEWED

GAO-05-81 – *Homeland Security, Management Challenges Remain in Transforming Immigration Program*

GAO-04-329R - *FTE transfers to DHS*

GAO-03-799 - *Contract Management*

GAO-03-1134T - *DHS- Challenges and Steps in Establishing Sound Financial Management*

GAO-04-945T - *DHS Financial Management Challenges*

GAO-04-865R - *Status of Key Recommendations*

JFMIP-SR-02-01 - *Core Financial System Requirements*

OMB Circular A-127 - *Financial Management Systems*

KPMG Financial Audit Process Analysis Documents (all key transaction cycles)

ICE Budget Mitigation Plan

Homeland Security Financial Systems Analysis, Final Report, dated December 27, 2002, prepared by SAIC

Bureau of Immigration and Customs Enforcement, Functional Comparison of the Federal Financial Systems (FFS) and the Federal Financial Management System (FFMS), dated August 22, 2003

Homeland Security, Budget in Brief, fiscal year 2005

ICE Budget in Brief Presentation, dated March 2004

Public Law 108-90, dated October 1, 2003

APPENDIX B: LIST OF ABBREVIATIONS

Acronym	Description
AMO	Air and Marine Operations Interdiction (within ICE)
BTS	Border and Transportation Security Directorate
CBP	Customs and Border Protection
CIS	Citizenship and Immigration Services
DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
FFMS	Federal Financial Management System (currently known as Altimate)
FFS	Federal Financial System
FTE	Full-Time Equivalent
FY	Fiscal Year
GAO	Government Accountability Office
ICE	Immigration and Customs Enforcement
IBM	International Business Machines Corporation
INS	Immigration and Naturalization Service
JFMIP	Joint Financial Management Improvement Program
KPMG	KPMG LLP
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPLA	Office of the Principal Legal Advisor
S&E	Salaries and Expenses
SAIC	Science Applications International Corporation
TM	Travel Manager
TSA	Transportation Security Administration

APPENDIX C: REPRESENTATIVE TURNER'S LETTER

One Hundred Eighth Congress
U.S. House of Representatives
Select Committee on Homeland Security
Washington, DC 20515

June 14, 2004

The Honorable Clark Kent Ervin
Inspector General
Department of Homeland Security

Dear Mr. Ervin:

I am deeply concerned about reports my staff are receiving from various personnel at the Bureau of Immigration and Customs Enforcement (ICE) about significant problems associated with the unit's budget and financial systems. We all are aware of the much publicized suspected $1.2 billion budget shortfall which led to a hiring freeze involving ICE. Although later explained as an accounting error, this event raised very serious questions about whether the office actually has control over its budget.

More recently, my staff have received indications that ICE continues to face challenges with its budget and financial systems that simply do not work. I understand that deficiencies in the ICE Federal Financial Management System (FFMS) are so severe that they place the bureau at risk of violating the Anti-Deficiency Act, a key federal law which restricts agencies from over-obligating appropriated funds. In the past, violations of the Act have resulted in the demotion and removal of high-ranking federal officials and carry criminal penalties of fines up to $5,000, or a maximum 2 years imprisonment, or both. Such a serious violation within ICE could serve as a source of extreme embarrassment for the department at large, a situation that DHS cannot afford so early in its transformation.

As you know, the Anti-Deficiency Act outlines very specific prohibitions. Generally, under the law, agencies cannot (1) spend beyond the amount available in an appropriation or fund unless authorized by law, (2) involve the government in any contract or other obligation for payment of money for any purpose in advance of appropriations, unless the authorized by law, and (3) accept voluntary services, or employ personal services in excess of that authorized by law, except in cases of certain emergencies. The Act further prohibits agencies from spending or obligating funds in excess of amounts permitted by regulations.

My staff interviewed ICE staff at DHS headquarters and in three large and important field offices. These conversations revealed a severe lack of confidence that the FFMS is providing decision-makers with accurate, useful, and timely information. As a result, the ICE staff have told us that their units run the risk of over spending their appropriations by the end of fiscal year

http://hsc.house.gov

2004 and violating the Anti-Deficiency Act. Consider the following concerns expressed by the staff stemming from their inability to pinpoint the amount of funds available for important functions due to problems with the FFMS and budget-related matters:

- Problems with financial systems have crippled the ability of managers and staff to fulfill their responsibilities. For example, travel data bases and other functions have been shut down for days because ICE had temporarily run out of money. ICE has also been unable to notify temporary employees as to whether they would be able to employ them on a permanent basis.

- Funds are being shifted to ICE from other parts of the Border and Transportation Security Directorate on a daily basis to avoid budget shortfalls and handle expenditures. These short-term "fixes" are not addressing ICE's systemic budget difficulties.

- Pilots have gone for months without knowing when, or if, they would acquire fuel, parts, and ammunition for their aircraft. Some are concerned that their offices may run out of money for critical repairs.

- Existing procurements are hard to track. As a result, financial staff are not able to keep track of how much they have available to spend on contracts. They must go directly to contractors to obtain that information.

- FFMS does not contain consolidated financial information. Staff need to run multiple reports and combine information manually to get a full picture of how much to spend. This leads to uncertainty about the amount of money available for travel, not to mention funds for vehicle and inventory procurements.

- Some vendors are not getting paid promptly because the FFMS is not properly equipped for vendor payments. ICE has not adjusted the system to correct these difficulties.

The concerns about the FFMS are not new. General Accounting Office (GAO) reports exposed problems with the system when it was used at the former Immigration and Naturalization Service. Apparently, many of the issues GAO cited were not resolved during the system's realignment to ICE. It is puzzling to me that the department would chose to stay with a system that was so widely recognized as inherently flawed. Unless department has well-integrated and reliable financial systems that enable managers to administer programs and control spending, it cannot efficiently fulfill its mission of protecting the homeland.

I therefore request that you initiate an audit to review the FFMS system and, more importantly, examine larger budget problems at ICE—particularly any violations of the Anti-Deficiency Act. It is imperative that you complete your audit by November of this year so that its results can be used to improve the financial situation at ICE and make bureau managers better stewards of taxpayer dollars.

As always, I stand ready to work with you in any way possible. Should you or your staff have questions, do hot hesitate to contact Mr. John Sopko, General Counsel, at 226-8833 or Mr. Glenn Davis at 226-8851 of my staff. I look forward to the results of your audit.

Sincerely,

Jim Turner
Ranking Member

Department of Homeland Security

Secretary
Deputy Secretary
Executive Secretariat
Chief of Staff
General Counsel
Under Secretary, Border and Transportation Security
Under Secretary, Management
Assistant Secretary for Public Affairs
Chief Financial Officer
Chief Security Officer
OIG Liaison

Immigration and Customs Enforcement

Assistant Secretary for Immigration and Customs Enforcement
Chief Financial Officer
OIG Liaison

Customs and Border Protection

Commissioner, Customs and Border Protection
Chief Financial Officer
OIG Liaison

Citizenship and Immigration Services

Director, Citizenship and Immigration Services
OIG Liaison

Office of Management and Budget

Chief, Homeland Security Branch
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