



Department of Homeland Security Office of Inspector General

Management Letter for the FY 2010 DHS Financial Statements and Internal Control over Financial Reporting Audit





Homeland Security

MAR - 1 2011

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.

This report presents the management letter for DHS' FY 2010 financial statements and internal control over financial reporting audit. It contains observations and recommendations related to internal control that were not required to be reported in the financial statement audit report. The independent public accounting firm KPMG LLP (KPMG) performed the integrated audit of DHS' FY 2010 financial statements and internal control over financial reporting and prepared this management letter. Material weaknesses and other significant deficiencies were reported, as required, in KPMG's *Independent Auditors' Report*, dated November 12, 2010, which was included in the FY 2010 DHS *Annual Financial Report*. KPMG is responsible for the attached management letter dated February 1, 2011, and the conclusions expressed in it. We do not express opinions on DHS' financial statements or internal control, 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.

A handwritten signature in cursive script, reading "Anne L. Richards".

Anne L. Richards

Assistant Inspector General for Audits



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

February 1, 2011

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

Ladies and Gentlemen:

We were engaged to audit the balance sheet of the U.S. Department of Homeland Security (DHS or Department) as of September 30, 2010 and the related statement of custodial activity for the year then ended (referred to herein as “financial statements”). We were also engaged to examine the Department’s internal control over financial reporting of the balance sheet as of September 30, 2010, and statement of custodial activity for the year then ended. We were not engaged to audit the accompanying statements of net cost, changes in net position, and budgetary resources for the year ended September 30, 2010 (referred to herein as other fiscal year (FY) 2010 financial statements), or to examine internal control over financial reporting over the other FY 2010 financial statements. Because of matters discussed in our *Independent Auditors’ Report*, dated November 12, 2010, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the FY 2010 financial statements. As stated in our report on internal control over financial reporting, we were unable to perform procedures necessary to form an opinion on DHS’ internal control over financial reporting of the balance sheet as of September 30, 2010 and the related statement of custodial activity for the year then ended.

We noted certain matters involving internal control and other operational matters that are summarized in the Table of Financial Management Comments on the following pages, and presented for your consideration in Sections I – XII of this letter. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. These comments are in addition to the significant deficiencies presented in our *Independent Auditors’ Report*, dated November 12, 2010, included in the FY 2010 DHS *Annual Financial Report*. A description of each internal control finding and its disposition as either a significant deficiency or a financial management comment is provided in Appendix A. Our findings related to information technology systems security have been presented in a separate letter to the Office of Inspector General and the DHS Chief Information Officer.

As described above, the scope of our work was not sufficient to express an opinion on the balance sheet as of September 30, 2010 or the statement of custodial activity of DHS for the year then ended, and we were not engaged to audit the statements of net cost, changes in net position, and budgetary resources for the year ended September 30, 2010. Accordingly, other internal control matters may have been identified and reported had we been able to perform all procedures necessary to express an opinion on the FY 2010 financial statements and had we been engaged to audit the other FY 2010 financial statements. We aim, however, to use our knowledge of DHS’ organization gained during our work to make comments and suggestions that we hope will be useful to you.



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

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

Very truly yours,

KPMG LLP

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I. CUSTOMS AND BORDER PROTECTION (CBP)

CBP – FMC 10-01 – Accumulation of Claims Against Drawback Bonds (NFR No. CBP 10-05)

The Automated Commercial System (ACS) does not properly account for bond sufficiency of claims that involve a continuous bond. Specifically, the automated control that prevents a claimant from exceeding the bond amount on file is not operating effectively. As a result, CBP will not have sufficient surety against a drawback over claiming. KPMG also notes there is not a manual procedure in place to ensure the sufficiency of bonds.

KPMG notes that ACS remains the system of record for drawback claims and bonds. In fiscal year (FY) 2010, there was not a program change within ACS or a manual procedure put in place to ensure the sufficiency of bonds. Specifically, KPMG noted the issue still exists in the current year when we examined two accelerated drawback claims: DL700004732 & DL700004716 for a total of \$88,265. We noted that both claims should have been applied to bond number 720600565. We examined bond 720600565 and noted that ACS showed an accumulated amount of \$80,545 claimed against the bond. Therefore, the accelerated payment made was more than the accumulated amount recorded against the bond in ACS. The accumulated amount of the bond should have reflected an amount of at least \$88,265.

Recommendation:

We recommend that CBP implement a manual check by the drawback specialist and technicians to query the bond on file related to the claim and verify that there is a sufficient amount on the bond for the claimant to be paid.

CBP – FMC 10-02 – Failed Disbursements Report (NFR No. CBP 10-07)

We noted that CBP's internal control over failed disbursements was not properly designed and implemented to detect and correct failed disbursements in a timely manner. Specifically, we noted the following:

- The Failed Disbursements Report was not being reviewed during the first quarter of FY 2010.
- CBP did not establish a clear administrator of the report for the entire duration of the fiscal year. Although the report was reviewed and relevant individuals were notified of the errors, sufficient follow-up was not always performed to determine if the errors were resolved. There were 103 stale transactions that remain unresolved on the report from previous fiscal years as of June 14, 2010.
- Transactions dating back to FY 2005 remain unresolved on the report.

Recommendations:

We recommend that CBP:

- Prepare and implement formal National Finance Center (NFC) Accounts Payable Branch policy and procedures for working and monitoring the items on the Failed Disbursement Report that includes a performance measure of having items resolved within 30 days from the date they appear on the report.
- Resolve the aged items on the Failed Disbursement Report by February 28, 2011.

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CBP – FMC 10-03 – Lack of Controls over the Timely Processing of Goods and Services Received (NFR No. CBP 10-08)

We noted that CBP lacks sufficient controls over the process of recording the receiving of goods and services timely throughout the year. Specifically, we noted:

- Contracting Officer Technical Receivers (COTRs) and goods receivers were not consistently recording receiving information into SAP.
- CBP did not have adequate controls and review procedures to ensure that COTRs and goods receivers verify workflow messages and resolve items on the “parked invoice” report.

Recommendations:

We recommend that CBP:

- Incorporate the following into the existing standard operating procedures (SOPs):
 - Provide a monthly Parked Invoice Report to the Program Offices;
 - Perform a weekly review of parked invoices by the NFC;
 - Contact the program offices to remind them of the need to enter goods receipt information timely via email, meetings and conference calls.
- Monitor the results of the annual Self Inspection worksheets to determine additional training needs.
- Continue outreach efforts that provide guidance to receiving officials through conference calls, newsletters, etc.

CBP – FMC 10-04 – Weakness in CBP’s Search for Unrecorded Liabilities to Support the Accounts Payable Estimate (NFR No. CBP 10-09)

When performing the subsequent disbursement analysis, CBP’s sampling methodology resulted in the potential for account payable transactions to be accounted for in duplicate. Such instances would arise when a goods receipt is performed prior to year-end, but the invoice receipt is not performed until subsequent to year-end (for three-way match expenditures). This would result in the account payable being accurately processed as of year-end and therefore included in CBP’s year-end accounts payable balance, due to the payable being recorded at goods receipt.

In addition, we selected 38 subsequent disbursement invoices for testwork and determined the following:

- Three instances in which CBP determined that an expense related entirely to FY 2009, when the period of performance on the invoice indicated that the expense should have been allocated over both FY 2009 and FY 2010. These three exceptions resulted in a total overstatement of unprocessed accounts payable of \$972,100.
- One instance in which CBP determined that an expense related entirely to FY 2010, when the period of performance on the invoice indicated that the expense should have been allocated over both FY 2009 and FY 2010. This exception resulted in an understatement of unprocessed accounts payable of \$324,777.
- One instance in which CBP determined that an expense related to FY 2010 when the period of performance on the invoice indicated that the expense related entirely to FY 2009. This exception resulted in an understatement of unprocessed accounts payable in the amount of \$237,067

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Recommendation:

We recommend that CBP adopt a revised standard operating procedure (SOP) to address additional steps needed to prevent duplicate entries in the population used to formulate the estimated accounts payable. The revised procedure should also include an allocation of expenses across fiscal years in those instances where the billing period appears to reflect the period in which services were performed (or goods received) and not the entire contract period.

CBP – FMC 10-05 – Weakness in CBP’s Monitoring and Review of Fines, Penalties, and Forfeiture (FP&F) Cases (NFR No. CBP 10-10)

We completed testwork related to the F05 report at eleven ports with FP&F offices. We noted improvements have been made to the F05 report review process; however, we noted one instance where a port did not begin retaining the F05 report until January 2010. Therefore, evidence of review of the F05 could not be verified prior to January 2010 at this port.

Recommendations:

We recommend that CBP management:

- Issue a memorandum to the Field Offices and Ports informing them of the requirement to retain copies of weekly F05 Reports for two years from the date the report was generated. Inform FP&F officers that they are accountable for complying with this policy.
- Issue an update to the Seized Asset Management and Enforcement Procedures Handbook.
- Hold a conference call for FP&F officers and supervisors to remind them of the requirement to run the F05 Report on a weekly basis and to retain for two years from the date the report was generated for self inspection purposes.

CBP – FMC 10-06 – Weakness in the Review of Weekly/Monthly Entry Edit Reports (NFR No. CBP 10-11)

We statistically selected eleven ports at which to perform control testwork over the entry process. Based on the results of testwork performed at the ports, we noted the following:

- Evidence that the issues on the reports were resolved according to the applicable Directive could not be verified for the following:
 - B06 *Rejected/Cancelled Entries Report* at one port, including supervisory review,
 - B07 *Unpaid/Rejected Entries Report* at one port,
 - B08 *Entry Releases with No Follow-up Summaries Report* at one port,
 - B84 *Budget Clearing Account Report* at three ports,
 - S21 *Weekly Deletion Report* at one port, and
 - Q07 *Unreported Quota Report* at two ports, including supervisory review.
- Lack of segregation of duties at one port; the supervisory review of the B06 report was conducted by the same person that processed the cancellations.
- Evidence of segregation of duties could not be verified at one port related to the review of deleted entries on the S21 report.
- One port did not properly work entries on the B08 report less than two weeks old because it allowed an importer 15 working days to submit all entry summaries and/or cancellation requests instead of the 10 days as prescribed in 19 CFR Section 142.12 (b).

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Recommendations:

We recommend that CBP management:

- Reinforce the importance of the requirements of CBP Directive 5610-004B published September 24, 2009 through written communications and, if necessary, through various training modes to ensure that the reports (B06, B07, B08, B84, and Q07) are being reviewed in accordance with established policy.
- Reinforce the importance of the requirement of CBP Directive 5610-006 through updating the directive, issuing written communications and, if necessary, providing training to ensure that the S21 and B06 are properly reviewed and verified by the appropriate CBP officials.

CBP – FMC 10-07 – Lack of Implementation of Controls Over Determining Capital Leases (NFR No. CBP 10-13)

CBP does not have one central, fully implemented process for determining whether a lease is capital or operating for all lease types, related to both financial reporting purposes under Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, and budgetary purposes under Office of Management and Budget (OMB) Circular No. A-11. Rather, CBP has a directive in place, CBP Directive 5320-032C, to address personal property and a GSA checklist in place to address real property. CBP has not implemented guidance on determining the classification of Office of Information Technology property leases. Furthermore, CBP does not have a formal requirement to retain documentation to support that CBP properly evaluated all leases as operating or capital.

Recommendation:

We recommend that CBP Office of Administration Financial Operations update CBP Directive 5320-032C to reflect a detailed checklist for all lease types differentiating between operating and capital leases for both financial reporting under SFFAS 6 and budgetary accounting under OMB Circular No. A-11.

CBP – FMC 10-08 – Lack of Formal Policies over Review of Importer Self-assessment Annual Notification Letters (NFR No. CBP 10-17)

Based on our inquiry and review of CBP's Mission Action Plan (MAP), *Revenue and Receivables Management – Classification and Appraisal*, CBP is formalizing the requirements related to the review of the Importer Self-Assessment (ISA) Annual Notification Letters. We noted that internal review checklists were completed for CBP's review of Annual Notification Letters selected in our sample; however, CBP is currently following draft procedures over the completion of the checklists, as the finalized Standard Operating Procedures (SOPs) have not been approved. The checklist is one of the tools used to conclude on whether a company is eligible for continued participation in the ISA program. We noted that the elements described in the *Revenue and Receivables Management – Classification and Appraisal* MAP were not implemented as of September 30, 2010.

Recommendation:

We recommend that CBP finalize, approve and implement the existing draft Standard Operating Procedures for the Importer Self-Assessment program.

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CBP – FMC 10-09 – Failure to Complete Supervisory Review of Drawback Claims (NFR No. CBP 10-18)

We performed procedures over controls related to supervisory reviews of drawback claims for the first three quarters of the fiscal year. During our testing, we reviewed 54 drawback claims from various ports that met the criteria for a supervisory review and noted that evidence of supervisory review which met the supervisory review criteria in accordance with the Drawback Handbook, could not be verified for three claims (M8500527436, BER90024561, and APN50902799).

Recommendation:

We recommend that CBP reinforce the importance of supervisory review by issuing written communications and updating existing drawback policy guidance to ensure that proper review of statistical (STAT) and FIRST hit claims take place.

CBP – FMC 10-10 – Certification of Refund and Drawback Payments (NFR No. CBP 10-19)

In the event that the chief/supervisor does not certify a payment, ACS is defaulted to automatically indicate that the Port Director certified a given payment, without the Port Director's actual certification. CBP has designed and implemented a mitigating control to manually review, verify, and certify payments on the Check Proof Listing. However, this control is not codified in Standard Operating Procedures.

Recommendation:

We recommend that CBP update and publish the ACS Refund Certification Procedures to provide the necessary guidance to the field to ensure all necessary verifications are completed prior to issuance of a payment.

CBP – FMC 10-11 – Failure to Review the Drawback Auto/Deemed Liquidation Alert Report (D28) (NFR No. CBP 10-21)

During our third quarter testing, we selected a sample of D28 Alert Reports at each drawback port for review. We noted four instances in which evidence of review of the D28 Alert Reports could not be verified.

Recommendations:

We recommend that CBP:

- Update the drawback policy with more specific guidance on how to review and resolve items on the D28 report.
- Reinforce the importance of reviewing the D28 report by issuing written communications to each of the drawback centers.

CBP – FMC 10-12 – Weakness in CBP's Controls over Automated Journal Entries and Misstatement of Liabilities Related to Injured Domestic Industries (IDI) (NFR No. CBP 10-22)

We noted that CBP did not have sufficient controls in place to review automated journal entries. We noted that CBP could review these entries either at the time the posting logic is established

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and then periodically to identify necessary updates, or at the time each automated journal entry is recorded. However, CBP did not perform a sufficient review at either of these times.

Through our trial balance analysis testwork, KPMG identified an abnormal balance in Standard General Ledger (SGL) 2980 – *Custodial Liabilities* account. Upon auditor inquiry, CBP performed an analysis of the abnormal balance and determined that, in specific circumstances, the journal entry recorded when payments are made to Injured Domestic Industries (IDI) was inaccurately automated in SAP. When certain types of disbursements were made to an IDI, the posting logic erroneously debited SGL 2980, instead of SGL 2990 - *Other Liabilities Without Related Budgetary Obligations*, where the liability had been correctly established. Due to the lack of a sufficient review of the posting logic at the time these automated journal entries were established or periodically thereafter, CBP did not detect this incorrect automated journal entry and prevent the recording of incorrect journal entries. Therefore, SGL 2980 was debited for the disbursement of the IDI liability without a previously established credit for the liability, thus creating an abnormal balance in SGL 2980. Due to the lack of a sufficient review at the time these automated journal entries were recorded, CBP did not detect and correct these misstatements

Recommendations:

We recommend that CBP:

- Formalize and improve its approval process for creating or changing automated journal entry postings in SAP.
- Establish the correct posting logic in SAP for recording transactions relating to IDI.

CBP – FMC 10-13 – Deficiencies in CBP’s Controls over the Application of Benefits to Customs-Trade Partnership Against Terrorism (C-TPAT) Partners (NFR No. CBP 10-23)

When testing the control surrounding the application of C-TPAT benefits to importer partners, we selected a sample of partners and noted one C-TPAT partner’s benefits were suspended in C-TPAT’s Web Portal as the partner failed validation; however, this C-TPAT partner was still receiving benefits through Automated Targeting System (ATS). Upon auditor inquiry, CBP’s C-TPAT office and the ATS team verified that the benefits status for that partner was not current in the ATS database due to an interface error between C-TPAT’s Web Portal and ATS. CBP determined this error could have affected any partners whose benefit status changed since the last quarterly reconciliation between the Web Portal and ATS. To prevent this issue from occurring through the remainder of the year, the ATS team developed scripts to run daily to ensure that all benefits designated by the Web Portal link to the benefits in ATS.

Recommendations:

We recommend that CBP:

- Continue the development of an automated script to interface the Tier Level Benefits in the C-TPAT Portal with ATS. This automated interface will replace the daily manual script currently performed by the ATS team.
- Conduct bimonthly audits, by C-TPAT HQ, of Tier Level Benefits in C-TPAT Portal and ATS. The audits will compare the benefits for each Importer of Record (IOR) between ATS and C-TPAT to validate that ATS reflects the correct level of benefits as designated by the C-TPAT field director or supervisor.

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CBP – FMC 10-14 – Lack of Supporting Documentation for Intra-Departmental Eliminating Journal Entries Related to Operating Expenses (NFR No. CBP 10-27)

While performing procedures over CBP's operating expenses in FY 2010, we noted 19 instances in which CBP recorded intra-departmental eliminating journal entries without sufficient supporting documentation. Near month end, CBP obtained the amounts its DHS trading partners were going to report on their month end Treasury Information Executive Repository (TIER) balances. After identifying differences between its account balances and the balances of its trading partners, CBP submitted supporting documentation to substantiate their balances to the DHS trading partner. However, CBP did not always obtain support for the trading partner's balance and only obtained a copy of the trading partner's TIER trial balance with the corresponding elimination pair. In those cases, CBP did not work with the trading partner to reconcile the differences noted between the two agencies and instead, recorded the unsupported trading partner amount.

We noted that CBP did not follow the procedures outlined in the FY 2010 *DHS Component Requirements Guide* (CRG). Specifically, CBP did not reconcile with its trading partner by obtaining appropriate supporting documentation to reconcile its differences (procedures 2 and 7), recorded adjusting entries without receiving adequate documentation (procedure 8), and did not contact the assigned DHS Desk Officer regarding the differing balances (procedure 9). As CBP recorded unsupported entries to agree to its trading partners' balances, CBP did not determine if the differences were the result of an error and did not determine if a plan of correction was necessary (procedure 10).

Recommendation:

We recommend that CBP work with DHS components and DHS Office of Financial Management (OFM) to obtain detailed information supporting intra-departmental transactions.

CBP – FMC 10-15 – Deficiencies in CBP's Controls over Calculating the Validity and Collectability of Non-Entity Taxes, Duties, and Trade Receivables (net) (NFR No. CBP 10-28)

While conducting procedures over a sample of 45 fines and penalties (F&P) cases related to CBP's collectability and validity (C&V) process, we noted the following:

- For 16 F&P cases, the "Validity and Collectability Analysis Checklists" completed at the port level were not properly completed as the "Validity and Collectability Analysis Checklists" did not match checklist guidelines and supporting documentation.
 - We noted that the following port level errors were corrected by the NFC Staff Accountant's review of the checklists when completing the "results summary":
 - For one checklist, all fields were marked "N/A" and stated that the port could not make a determination.
 - For one checklist, the estimated collectible amount was input as \$0 but the rationale for the determination was stated as "simply a guess."
 - For four checklists, the gross receivable amount was incorrectly calculated.
 - For one checklist, the estimated collectible amount was input as \$0, but the importer had bonds on which CBP could collect.

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- For one checklist, the gross receivable was marked as fully collected, when payments have not been received by CBP.
- For four checklists, the loss of revenue sections of the checklist were incorrectly completed; the information on the checklists did not match the supporting documentation.
- For three checklists, the inputs for the gross receivable, estimated collectible amount, and loss of revenue were incorrectly completed or were not completed at all.
- We noted that the following port level error was not corrected by the NFC Staff Accountant's review of the checklists when completing the "results summary":
 - For one checklist, the estimated collectible amount was input as \$0, but the importer had bonds on which CBP could collect
- For one of the 16 F&P cases noted above, the collectible amount was applied to the fine or penalty instead of to the loss of revenue first on the Collectability & Validity Checklist. The error was not corrected by the Staff Accountant during completion of the "results summary" and therefore, the error flowed through to the calculation of the collectability and validity percentages; however, this error had no impact on the amount recorded for Taxes, Duties, and Trade Receivables (net).
- For two F&P cases, the information documented in the "Results and Analysis Spreadsheet" did not match the applicable "results summary." Therefore, CBP used incorrect amounts to calculate the validity and collectability percentages by .25 percent, thus impacting the amount recorded for Taxes, Duties, and Trade Receivables (net).

Recommendations:

We recommend that CBP:

- Instruct NFC to modify its review of the "Collectability and Validity Analysis Checklists" by preparing a calculation spreadsheet at the time the checklist review is conducted.
- Instruct NFC to modify its procedures informing port office(s) of errors in their quarterly checklists.
- Reinforce guidance and the importance of the checklists to ensure proper completion of the "Collectability and Validity Analysis Checklists."

CBP – FMC 10-16 – Lack of Segregation of Duties and Insufficient Review for Manual Journal Entries (NFR No. CBP 10-32)

CBP does not have proper segregation of duties in place over certain manual journal entries recorded in its general ledger. We selected a sample of 200 manual journal entries and noted 114 instances in which CBP had insufficient controls in place to detect or correct misstatements in the general ledger and a lack of segregation of duties for authorizing, recording, and reviewing transactions. In these instances, the same individual was responsible for multiple key aspects of a transaction, including authorizing, processing, recording, and reviewing. In addition, these entries were recorded without any evidence of secondary review or any evidence of review determining whether reversals, if applicable, were correctly reversed out of the general ledger.

In addition, we noted that when a review of manual journal entries did take place, it was not always sufficient to detect errors. Specifically, we noted that one journal entry selected for

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testwork was incorrectly proposed to be reversed and the review of this entry prior to its reversal did not detect this error, which allowed an incorrect posting to the general ledger.

Recommendation:

We recommend that CBP conduct an assessment of manual JVs and enhance internal controls around the process.

CBP – FMC 10-17 - Deficiencies in CBP’s Seized Inventory Process (NFR No. CBP 10-33)

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

Reporting:

- For one seized item, the original shelf mass including packaging (772.04 grams) was not initially input into the Seized Assets and Case Tracking System (SEACATS). Instead, the seized item was only input into SEACATS at the net mass (726.76 grams). As such, the mass measured during the inventory (779.18 grams) was significantly different from the mass reported in SEACATS. Due to the original incorrect entry into SEACATS, the percentage difference between SEACATS and the inventoried weight was greater than 2%. As the item was heroin, a hard narcotic, the difference should have been reported to Internal Affairs. However, the inventory counters stated that the difference was not going to be reported to Internal Affairs.
- One seized item on the inventory count sheet listed three boxes; however, only two boxes were present in the vault. CBP was unable to provide documentation to explain the difference.

Security:

- One employee neglected to sign into the log-in sheet while entering the vault.
- One employee signed into the log-in sheet alone on five different occasions.
- A key to a hard narcotics cage was placed in an unsecure and open location within the vault.

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

- Four instances in which the amounts counted during the annual inventory were not properly updated in SEACATS.
- Three instances in which CBP did not record the inventory date in SEACATS following the inventory to reflect that the item had been counted, as required by the CBP Inventory Instructions

Recommendations:

We recommend that CBP:

- Issue a memorandum to the Field Offices and Ports reminding them of the requirement regarding the vault access and limitations as it pertains to the temporary and permanent storage facilities as outlined in the Seized Asset Management and Enforcement Procedures Handbook (SAMEPH) Sections 2.5.1 and 2.5.2.
- Issue a memorandum to the Field Offices and Ports reminding them of the requirement to report discrepancies outside of the allowable weight variance to the Joint Intake Center as outlined in Section 2.4.1.8b in the SAMEPH.

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- Remind Seized Property Supervisors and FP&F Officers during the FP&F Advanced training scheduled for December 2010 of the requirements addressed in the Notice of Findings and Recommendation.
- Conduct a conference call with the Field Offices and FP&F officers advising them of the results of the OIG and KPMG audit and remind the field of the requirement to comply with policies as stipulated in the SAMEPH.
- After the Annual Inventory, work with the Office of Administration to update the inventory instructions to outline specific details and address any ongoing issues and concerns.

CBP – FMC 10-18 – Improper Payment of Interest (NFR No. CBP 10-34)

During our FY 2010 procedures over the Prompt Payment Act, we selected 58 cash disbursements and noted two instances in which CBP entered incorrect payment terms in SAP. For the two exceptions identified, CBP incorrectly coded the payment terms as “Payable Immediately Due net,” rather than as “Within 30 days Due net.” There was no indication in the obligating document that a payment term of less than net 30 existed. As a result, the system designated the payment due date as the same day these invoices were entered into SAP and interest began to accrue prior to 30 days.

After the obligation was entered into SAP, CBP’s review process did not detect the incorrect vendor payment terms. As a result, CBP made timely principal payments to vendors, but paid interest where no interest was due.

Recommendations:

We recommend that CBP:

- Identify all vendor records with a Z0002 code (“Payable immediately Due net”) and verify that it is the correct code. Corrective action will be taken for each vendor record that is coded incorrectly.
- Update the vendor ID procedures to include the verification of the code for payment terms.
- Run a semi-annual report to identify and verify vendor records with a Z0002 coding. This report will be run, reviewed, and vendor records updated.
- Update the work instructions in SAP to include guidance related to the selection of payment terms for miscellaneous obligating documents (Bill of Ladings and SF-182 Training documents).

CBP – FMC 10-19 – Insufficient Documentation of Statement on Auditing Standards (SAS) 70 Review (NFR No. CBP 10-35)

CBP management should review the Service Auditor’s *United States Department of Agriculture’s (USDA) SAS No. 70 Report on National Finance Center General Controls* annually, in order to detect control weaknesses in USDA’s general control environment that could lead to potential misstatements to the financial statements. Through this review, CBP gains an understanding of the control environment surrounding USDA’s payroll processing system, and how it influences CBP’s internal control environment. CBP was unable to provide written evidence documenting the review of USDA’s annual SAS 70 report for the fiscal year 2010, and therefore did not document a response to any deficiencies identified by USDA’s service auditor (if applicable).

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Recommendation:

We recommend that CBP document its review of the USDA SAS 70.

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II. FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)

FEMA – FMC 10-01 – Internal Control Deficiencies over Claims Paid at Selected Insurance Companies that Participate in FEMA’s National Flood Insurance Program (NFIP) (NFR Nos. 10-01 and 10-01a)

We selected 10 insurance companies and tested a sample of 300 claim payments across those companies covering October 1, 2009 to March 31, 2010. During this testing, we noted the following errors at the respective insurance companies:

- For one sample item, we noted that evidence of the claim examiner’s review of the increased cost of compliance (ICC) report and claim file prior to claim payment was not available and included in the claim file.
- For one sample item, we noted that the claim file was not appropriately reviewed prior to the claim payment to the policyholder based on the claim examiner’s payment authority limit.
- For 19 sample items, we noted that based on the claim file, the loss reserve was not updated in the appropriate accounting month for subsequent preliminary/final reports received from the adjuster and/or payments made to the policyholder.
- For one sample item, we noted that a loss reserve was not established upon the insurance company receiving the notice of loss.
- For one sample item, we noted that the loss reserve was not closed in the month that the final payment was made.
- For one sample item, we noted that the loss reserve was closed before the month of final payment.
- For six sample items, we noted that the Loss Adjustment Expense (LAE) payment was incorrect based on supporting documentation in the claim file and the National Flood Insurance Program (NFIP) LAE Schedule.
- For one sample item, we noted an underpayment of claim payments to the insured based on the adjuster’s final report and other supporting documentation in the claim file.

We selected 10 insurance companies and tested a sample of 250 claim payments across those companies covering April 1, 2010 to June 30, 2010. During this testing, we noted the following errors at the respective insurance companies:

- For one sample item, we noted an LAE overpayment based on supporting documentation in the claim file and the NFIP LAE Schedule.
- For two sample items, we noted an overpayment/underpayment of claim payments to the insured based on the adjuster’s final report and other supporting documentation in the claim file.

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Recommendations:

We recommend that FEMA:

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

FEMA – FMC 10-02 – Inaccuracy of Claims’ Loss Reserves at Selected Insurance Companies that Participate in FEMA’s NFIP (NFR Nos. 10-02 and 10-02a)

We selected 10 insurance companies and tested a sample of 587 loss reserves reported by these companies as of January 31, 2010. During this testing, we noted the following errors at the respective insurance companies:

- For two sample items, the recorded date of loss was not accurate based on the supporting documentation in the claims files.
- For three sample items, the loss reserve amount was incorrectly adjusted by the claims examiner based on the claims file supporting documentation.
- For 17 sample items, the loss reserve was not adjusted for partial and/or advance payments made to the policyholder.
- For three sample items, the insurance company attempted to correct an attribute related to the claims file in the claims system; however, this reset the loss reserve to the default system amount. Therefore, claim payments made prior to January 31, 2010 did not reduce the loss reserve balance as of that date.
- For eight sample items, the loss reserve was not adjusted for subsequent adjuster reports and/or the final denial letter.
- For one sample item, the preliminary report indicated a loss reserve for both building and contents; however, a loss reserve was not established for the contents portion by the claims examiner.
- For three sample items, the loss reserve was not closed in a timely manner after full payment of the claim was made to the policyholder.
- For four sample items, the loss reserve was not appropriately established/adjusted due to a claims examiner clerical error.
- For one sample item, the loss reserve was converted from a previous insurance company vendor and did not reflect the activity identified in the claim file supporting documentation.
- For 17 sample items, the claims file supporting documentation did not support the loss reserve recorded in the insurance company NFIP claims system.

We selected 10 insurance companies and tested a sample of 612 loss reserves reported by these companies as of June 30, 2010. During this testing, we noted the following errors at the respective insurance companies:

- For 58 sample items, we noted that the loss reserves were not accurately recorded in the general ledger based on documentation in the claim file (e.g., Final Report, Preliminary Report, and payments to date).

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- For one sample item, we noted that a claim was opened with an incorrect date of loss and remained open when a new claim was opened with the correct date of loss, resulting in a duplicate claim.
- For one sample item, the Company did not provide the file for the claim.

Recommendations:

We recommend that FEMA

- Follow-up with each of the insurance companies to determine that appropriate corrective action has been implemented to address the exceptions noted.
- Provide increased oversight to ensure specific and consistent documentation of the established loss reserve and subsequent adjustment to the loss reserve per claim at the insurance companies participating in the NFIP is maintained.

FEMA – FMC 10-03 – Internal Control Deficiencies over Premiums Written at Selected Insurance Companies that Participate in FEMA’s NFIP (NFR Nos. FEMA 10-05 and 10-05a)

We selected 10 insurance companies and tested a sample of 284 written premium transactions across those companies covering October 1, 2009 to March 31, 2010. During this testing, we noted the following errors at the respective insurance companies:

- For one sample item, we noted that the designated flood zone per the policy declaration page did not agree to the FEMA flood maps for the insured property address. Based on the incorrect flood zone used, we noted that the policy premium was calculated incorrectly. For another sample item, an incorrect property address was used.
- For two sample items, we noted that the policy declaration page indicated that the premium should be calculated using pre-firm construction rates, but the policy premium was calculated using post-firm rates. Per the NFIP Manual, elevated pre-firm premiums may be calculated using post-firm rates if an elevation certificate is completed. However, we were unable to obtain the elevation certificates to support the use of post-firm rates for those policies.
- For one sample item, we noted that the premium was calculated using a basement and above contents rate. However, the application indicated that contents should be calculated using lower floor only – above ground level rates.
- For one sample item, we noted that the premium was calculated based on a preferred risk policy without basement or enclosure rates. However, the application indicated that the property had a finished basement below the building.

We selected 10 insurance companies and tested a sample of 50 written premium transactions across those companies covering the period July 1, 2010 to August 31, 2010. During this testing, we identified the following error at one insurance company:

- For one sample item, we noted that the designated flood zone per the policy declaration page did not agree to the FEMA flood maps for the insured property address. Based on the incorrect flood zone used, we noted that the policy premium was calculated incorrectly.

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Recommendations:

We recommend that FEMA:

- Follow-up with each of the insurance companies to determine that they have implemented the appropriate corrective action to address the exceptions identified.
- Provide increased oversight to insurance companies participating in the NFIP to ensure they process and review underwriting files in accordance with NFIP guidelines.

FEMA – FMC 10-04 – Deficiencies in the Budget Execution Report Preparation Process (NFR No. FEMA 10-06)

Based on our testwork performed over the Budget Execution Report as of March 31, 2010, we noted the process to prepare the Budget Execution Report is not properly designed. Specifically:

- The Budget Execution Report “Spend Plan Amount” is not consistently reported by the Budget Planning and Analysis Division (BPAD) budget analysts. The reporting process is not standardized throughout the BPAD and, as such, the reconciliation is not programmed to accurately capture the original budget and subsequent allocations to each FEMA office/directorate. Further, BPAD management does not formally review the Budget Execution Report spend plan data for accuracy.
- The “Spending to Date” balances do not agree to external financial reports, such as FEMA’s financial statements or OMB budget reports (e.g., the SF-132, *Apportionment and Reapportionment Schedule*, and the SF-133, *Report on Budget Execution and Budgetary Resources*). The Budget Execution Report “Spending to Date” activity is obtained from the Integrated Financial Management Information System (IFMIS) cost-posting module funds disposition report, which differs from data recorded in the general ledger because the report excludes journal vouchers (JVs). Therefore, the reconciliation data does not provide a true representation of FEMA’s budget and fiscal year spending for monitoring purposes.

Recommendations:

We recommend that FEMA:

- Develop and implement standard operating procedures, including appropriate internal controls, over the preparation and review of the Budget Execution Report to ensure that a consistent process is established throughout the BPAD and proper review of the report is performed by management prior to report distribution.
- Develop and implement enhancements to the data gathering process, including appropriate internal controls, to ensure that the Budget Execution Report “Spending to Date” data reflects FEMA’s fiscal year spending, including journal vouchers, and agrees to external financial reports.

FEMA – FMC 10-05 – Deficiencies in the Development and Application of Policies Related to the Non-Grant, Non-Mission Assignment, and Non-System Generated Accounts Payable (A/P) Accrual (NFR No. FEMA 10-07)

Our review of the A/P accrual model methodology as of December 31, 2009 revealed the following conditions:

- An A/P accrual was not generated for the following fund codes (FC) and budget object codes (BOC):

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

Due to the nature of the funds and BOCs, we noted a separate accrual approach from the A/P accrual model is required. Subsequent to our testwork as of December 31, 2009, FEMA drafted an Intergovernmental Accrual Process. However, the policy does not specifically identify the fund codes and BOCs noted above.

- The A/P accrual model used an improper United States Standard General Ledger (USSGL) account to limit the A/P accrual balance to the available undelivered order (UDO). UDO balances within the model are comprised of USSGL accounts 4801, 4802, 4871, and 4881. However, SGL account 4802, *Undelivered Orders – Obligations, Prepaid/Advance*, represents UDOs that were previously paid; accordingly, SGL account 4802 has no applicable A/P and should not be considered in the A/P accrual limit determination.
- The A/P accrual methodology does not consider the impact of balances within SGL account 1410, *Advances and Prepayments*, including whether any advances should be liquidated prior to recording an A/P balance.
- The A/P model methodology tolerates an exceptionally high validation error rate: +/- 30% of the total model-calculated accrual.

Recommendations:

We recommend that FEMA:

- Update the Intergovernmental Accrual Process Standard Operating Procedure (SOP) to provide clearer documentation of the accrual processes in place over the BOCs and Fund Codes noted above.
- Limit the UDO balance to the unpaid amount for A/P accrual limitation purposes by excluding SGL account 4802, *Undelivered Orders – Obligations, Prepaid/Advanced* from the Automated Accounts Payable Model.
- Perform a documented review of USSGL account 1410, *Advances and Prepayments*, to determine whether material non-governmental advances exist and require liquidation prior to booking the quarterly A/P accrual.
- Re-evaluate the target error rate for the A/P accrual model validation to provide management with more reasonable assurance that the A/P accrual estimates recorded are not materially misstated.

FEMA – FMC 10-06 – Control Deficiencies and Underlying Data Deficiencies Related to the Non-Grant, Non-Mission Assignment, and Non-System Generated Accounts Payable Accrual (NFR No. FEMA 10-08)

Based on our review of the December 31, 2009 A/P accrual model, we noted the following control deficiencies:

- The A/P accrual model process lacks sufficiently documented review controls. The A/P accrual methodology provides for additional documentation in the event the model

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reconciliation or validation exceeds tolerable thresholds; however, the methodology does not require documented review controls throughout the model, as follows:

- Reconciliation of the underlying invoice and UDO data to the general ledger - we noted no documentary evidence exists to support the model reconciliation review.
- BOCs and A-11 codes (object classification codes defined in Office of Management and Budget (OMB) Circular No. A-11, Section 83) included in the model - we noted no documentary evidence exists to support FEMA's review of the BOCs and A-11 codes used in the model or a study of additional/new BOCs and FCs that may impact the model in FY 2010. As a result, our review of the December 31, 2009 A/P accrual model identified three BOCs improperly included in the model: BOC 2115, Rental/Lease of Vehicles from Government Motor Pools; BOC 2310, Rental Payments to GSA; and BOC 2589, Interagency Agreements. BOC 2589 (A-11 code 25.3) was excluded from CORE IFMIS data but was not excluded from grants and training (G&T) data as of December 31, 2009. As a result, the model underlying data included one G&T invoice within BOC 2589. BOCs 2115, 2310, and 2589 relate to intragovernmental transactions; however, all A/P resulting from the A/P accrual model is allocated and accrued to non-governmental A/P.
- Model parameters and thresholds, including the journal voucher (JV) materiality threshold and the moving average length - per discussion with FEMA personnel, FEMA reviewed the model parameters and thresholds used in the December 31, 2009 A/P accrual model. However, we were unable to obtain documentation supporting FEMA's review and assessment of the parameters in FY 2010.
- Model calculations and outputs - we noted the JV reviewer reviewed the model JV list (model output) as supporting documentation for the A/P accrual JVs. However, we noted no documentary evidence exists to support an additional review of the A/P accrual model, including the model calculations and the model output.
- Accrual estimate validation - the accrual estimate validation is not formally documented. Per the A/P accrual methodology and FEMA personnel, FEMA may draft a memorandum if the validation error rate exceeds the target error rate. However, the validation review is not documented if the validation error rate falls below the target error rate.
- The model does not operate effectively to limit the A/P accrual allocation to the UDO balance for the applicable fund, budget fiscal year (BFY), and BOC combination within the model. Specifically, we noted the following exceptions:
 - In three instances, the model UDO data contained insufficient UDO balances within the fund, BFY, and BOC combinations, and the corresponding accrual allocations were not properly limited. The model populated estimated accruals for the corresponding fund, BFY, and BOC combinations that exceeded the model UDO balances.
 - In three instances, the model utilized UDO data within the incorrect A-11 codes for the accrual allocation limit. G&T funds use A-11 codes 21 and 31; CORE funds use A-11 codes 21.0 and 31.0. The A/P accrual model was designed to capture UDO data within A-11 codes 21.0 and 31.0; as a result, G&T fund UDO balances within A-11 codes 21 and 31 were not properly captured by the model allocation limit functionality. As such, per the A/P accrual model, no available UDO balance exists for the G&T entries. However, the model did not limit the JVs to the UDO balance per the JV Limit tab.
- Based on our review of 50 A/P accrual model underlying data invoices as of December 31, 2009, we noted the following underlying data discrepancies:

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- Two travel vouchers were paid incorrectly based on supporting documentation.
- One invoice was included in the incorrect period of performance quarter-end based on supporting documentation. Per the invoice, we noted the period of performance was June 23, 2009 to September 25, 2009. However, the invoice was included within the period of performance for the quarter-ended December 31, 2009.

Recommendations:

We recommend that FEMA:

- Revise the current A/P accrual methodology to require formal, documented review controls throughout the Automated Accounts Payable Model execution process, including annual review and reconciliation of BOCs/A-11 codes; annual review of model parameters and JV materiality thresholds; quarterly reconciliation of underlying data utilized within the model; and quarterly review of the model calculations, outputs, and estimate validation.
- Perform a thorough review of the A/P accrual model, including A-11 codes, subsequent to any changes to ensure consistency in the model data and functionality.
- Ensure accounting technicians undergo sufficient training to understand how to properly populate the vendor invoice data fields within IFMIS. In addition, reinforce existing procedures to ensure underlying data transactions undergo sufficient review to validate the accuracy of the transactions.

FEMA – FMC 10-07 – Insufficient Office of the Chief Financial Officer (OCFO) Review of FEMA’s Legal Liability and Related Disclosure (NFR No. FEMA 10-12)

We noted that the FEMA OCFO did not perform an adequate review of its legal liability and related financial statement disclosures as of June 30, 2010. Specifically, the FEMA OCFO did not:

- Evaluate the reasonableness of responses from the FEMA Office of Chief Counsel (OCC) attorneys related to the likelihood of an unfavorable outcome.
- Review the reasonableness of the amounts of potential loss related to reasonably possible cases that are disclosed and probable cases that are accrued as contingent liabilities.
- Perform look-back analyses on the estimate of the amount or range of potential losses. The OCFO did not compare what was actually awarded to the plaintiff to the estimated amount of potential losses to assess the accuracy of the estimation process.

Subsequent to our notification to the FEMA OCFO of the condition above, the FEMA OCFO documented the FEMA OCC methodology for identifying reasonably possible and probable ranges.

Recommendations:

We recommend that FEMA OCFO implement a documented review process over the legal liability and related financial statement disclosures which encompass the following:

- Assessment of the reasonableness of FEMA OCC attorneys’ responses as to likelihood of an unfavorable outcome.
- Assessment of the reasonableness of the amount of potential loss related to reasonably possible cases that are disclosed and probable cases that are accrued as contingent liabilities.

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- Look-back analyses to determine the accuracy of the estimate of the amount or range of potential losses.

FEMA – FMC 10-08 – Deficiencies in the Development of Mission Assignment (MA) Policies and Procedures (NFR No. FEMA 10-15)

Under SOP Number 2600-007, *Financial Reporting of Mission Assignments*, FEMA requires MA-related UDO balances to be validated annually as of June 30th of each year. In the event an Other Federal Agency (OFA) is non-responsive to the validation request, FEMA will set a specific response deadline prior to closing the MA. However, the closeout process initiated by the validation contains deadlines that may not be completed by the fiscal year end, September 30th. The policy calls for UDOs to be reviewed but not validated at other times throughout the year.

Recommendations:

We recommend that FEMA:

- Continue to refine its process for the annual MA UDO validation and work closely with OFAs to receive timely responses.
- Continue to work closely with the regional offices to coordinate any necessary de-obligation/close out actions prior to fiscal year end.
- Evaluate instituting a process in which a journal voucher would be entered to effectively record the de-obligation of MA UDOs that have been identified as invalid/closed by an OFA, but not yet de-obligated by the regional offices prior to September 30.

FEMA – FMC 10-09 – Improvements Needed in Review and Recording of Year-end Mission Assignment Accrual (NFR No. FEMA 10-17)

FEMA attempted to perform a validation of the estimated September 30, 2009 MA accounts payable accrual to determine the accuracy and reliability of the estimate. However, during our review of the validation, we noted that the validation was not effective as FEMA compared all reimbursement requests received in the 1st quarter of FY 2010 to the accrual balance as of September 30, 2009. For comparison purposes, the reimbursement requests received in FY 2010 used to validate the accrual should only include the requests received for services and/or expenses incurred prior to October 1, 2009.

In addition, FEMA did not review and analyze the accrual by agency prior to recording the accrual to ensure that validity and reasonableness of each accrual.

Recommendations:

We recommend that FEMA:

- Develop and implement procedures to compare the MA accounts payable accrual estimates to the actual expenses incurred, communicate with OFAs on discrepancies noted to make estimation improvements in the future, and reassess the process to develop the estimate as necessary. The verification and validation should be documented and properly reviewed.
- Thoroughly review MA accounts payable accrual supporting documentation for reasonableness prior to recording amounts reported by OFAs, and communicate timely with OFAs on any discrepancies noted to prevent an intragovernmental reconciliation problem.

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FEMA – FMC 10-10 – Lack of Certain Documentation Related to Compliance with the Improper Payments Information Act of 2002, as amended (IPIA) (NFR No. FEMA 10-20)

We reviewed FEMA's risk assessment approach and test plan for each of the eight programs that were determined to be of significant risk for improper payments. Based on our review, we determined that FEMA used multi-year sampling for the Homeland Security Grant Program and the Transit Security Grant Program given the large size of the programs. Because this approach was used, FEMA was unable to extrapolate the sample results over the entire population and could not provide results within the required 2.5 percent precision level. For this approach to be considered compliant with IPIA and OMB Circular No. A-123, FEMA must obtain approval from the OMB. FEMA did not obtain official written approval until after our audit request in late October.

Recommendations:

We recommend that FEMA obtain OMB written approval prior to utilizing a multi-year sampling approach for its IPIA testing.

FEMA – FMC 10-11 – Inability to Link Systems to Significant Grant Programs (NFR No. FEMA 10-22)

We requested that FEMA provide an analysis to demonstrate the amount of UDOs flowing through each grant system during fiscal year (FY) 2010. We asked that the analysis include a listing of which system FEMA was using to obligate and pay each specific grant program. FEMA provided a listing of systems; however, FEMA was not able to provide specific information to show what grants were being managed within each system and the volume of those grants.

Recommendations:

We recommend that FEMA:

- Develop a crosswalk of agency grant programs to the appropriate systems used to process obligations and payments.
- Develop and implement a method of determining the accounting string used to identify each individual grant program.
- Develop and implement a monitoring control to ensure that the crosswalk and accounting string information are updated and kept current.

FEMA – FMC 10-12 – Failure to Identify and Assess Accounting Policies/Practices Not in Accordance with Generally Accepted Accounting Principles (Non-GAAP) (NFR No. FEMA 10-23)

We inquired of FEMA OCFO personnel regarding the existence of any non-GAAP policies or procedures in FY 2010 and obtained a response stating that FEMA did not follow any non-GAAP policies or practices in FY 2010. However, based on testwork performed in FY 2010, we noted the following non-GAAP policies/practices:

- FEMA's accounts payable model accrued expenses based on the use of thresholds.
- FEMA evaluated current and future litigation claims using a threshold of \$3 million for individual cases and \$6 million for aggregate cases. This policy was adopted by management and acts as an internal materiality threshold when evaluating litigation.

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Recommendation:

We recommend that FEMA develop and implement procedures to evaluate new and existing policies for compliance with GAAP. FEMA should track those policies determined to not be in compliance with GAAP and periodically assess the impact of the non-GAAP policies on its financial information.

FEMA – FMC 10-13 – Deficiency Identified Related to the Preparation and Review of the Retrospective Reserve Analysis (NFR No. FEMA 10-25)

We identified that the monthly Retrospective Reserve Analysis over the insurance liability estimate for July 31, 2010 prepared by the third-party service provider's actuary contained discrepancies in the calculation of "total reserves retrospectively" and the reserve "redundancy/deficiency" amount for the month of July 2010. We noted the subsequent losses paid, current outstanding case reserve, and current incurred but not reported (IBNR) reserve for the Direct Servicing Agent were improperly excluded from the "total reserves retrospectively," which resulted in the calculation of the "redundancy" being misstated by \$45,919,624.

	Subsequent Loss Paid	Current O/S Case Reserve	Current IBNR Reserve	Total Reserves Retrospectively	Financial Statement Reserves	Redundancy / (Deficiency)
FEMA	\$82,779,557	\$90,716,321	\$129,274,906	\$ 256,851,160	\$334,758,959	\$77, 907,799 *
KPMG	\$82,779,557	\$90,716,321	\$129,274,906	\$ 302,770,784	\$334,758,959	\$31,988,175
Difference						\$45,919,624

* The documented "redundancy/deficiency" in the Retrospective Reserve Analysis was \$23,477,443 because of a formula error. Based on the documented "total reserves retrospectively" and "financial statement reserves," the amount that should have been shown as the "redundancy/deficiency" was \$77,907,799.

Recommendation:

We recommend that FEMA enhance the Chief Actuary's Retrospective Reserve Analysis review procedures to include a review of the accuracy of the amounts and calculations in the analysis.

FEMA – FMC 10-14 – Lack of Supporting Documentation for Prompt Payment Sample Item (NFR No. FEMA 10-28)

During test work over compliance with the Prompt Payment Act as of September 30, 2010, FEMA was unable to provide documentation for 1 of 58 payments selected.

Recommendation:

We recommend that FEMA develop a monitoring control to ensure proper adherence to existing document retention policies and procedures for all payment activities.

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FEMA – FMC 10-15 – Deficiency in the Methodology Used to Calculate the Non-Current Portion of the Insurance Liability Estimate (NFR No. FEMA 10-29)

We noted the following conditions relate to the calculation of the current and non-current portions of the insurance liability estimate:

- In FY 2009, the OCFO calculated the current and non-current portions of the insurance liability estimate using a 33 percent and 67 percent split, respectively. In FY 2010, the third-party service provider's actuary was asked to determine the percentage and calculated the current and non-current portions of the insurance liability as 85 percent and 15 percent, respectively. FEMA did not provide rationale for the large change in percentages used for the current and non-current portions of the insurance liability from FY 2009 to FY 2010, explain the methodology used last year, or provide rationale for the change in methodology from the prior year to the current year.
- In FY 2010, the methodology used by FEMA to calculate the current and non-current portions of the insurance liability estimate, developed by the third-party service provider's actuary, utilized the assumption that non-current liabilities represented estimated losses for accident months September 2009 and earlier. FEMA explained that, absent any major disasters, it would expect that a similar percentage of claims would have accident months older than one year at 9/30 each year. FEMA's reasoning provided for the current and non-current portions of the insurance liability calculation is not consistent with SFFAS No. 1 and is not supported by actual FY 2010 claim payment data. The non-current portion of the liability should represent the insurance claims that will not be paid within the next year, not insurance claims with an accident month older than one year.

Recommendation:

We recommend that FEMA document, approve, and develop procedures to periodically reassess a methodology for calculating the current and non-current portions of the insurance liability estimate that is in compliance with the applicable accounting standards.

FEMA – FMC 10-16 – Failure to Close Assistance to Firefighter Grants (AFG) Timely (NFR No. FEMA 10-30)

During our testwork performed over AFG grants, we noted that no grant closeouts had been processed in the AFG System for the period October 1, 2009 to September 30, 2010. Per discussion with the Grant Programs Directorate (GPD), the implementation of the SF 425, *Federal Financial Report*, to comply with the Office of Management and Budget use of standard forms created a problem within the AFG System which prevented GPD from closing grants within the system. Because no manual closeout process exists, GPD has not been able to closeout any AFG grants since October 1, 2009.

Recommendation:

We recommend that FEMA develop and implement an alternate manual process to timely closeout AFG grants until the system is updated and to use if the system were to fail again in the future.

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III. FEDERAL LAW ENFORCEMENT TRAINING CENTER (FLETC)

FLETC – FMC 10-01 – Management Review of Purchase Card Statements (NFR No. FLETC 10-01)

To test the control over management review of monthly purchase card statements, we judgmentally selected a sample of nine cardholders, and examined five months of purchase card statements for each cardholder for a total sample of 45 purchase card statements. The results of testing were as follows:

- 26 instances where the statement was not signed by cardholder or supervisor in a timely manner.
- 11 instances where the statement was not signed by the cardholder in a timely manner.
- 1 instance where the statement was not signed by the supervisor in a timely manner.

Recommendations:

We recommend FLETC review the guidance for Management Review of Charge Cards, update FLETC policies and procedures, and provide additional training to ensure timely review of purchase card statements by both the cardholder and supervisor.

FLETC – FMC 10-02 – Accounts Payable (A/P) Estimation Methodology and True-Up Analysis (NFR No. FLETC 10-03)

We noted that the Federal A/P balance at September 30, 2010 was approximately \$1,063,000 compared to \$3,813,000 noted in the A/P true-up detail provided to us during fiscal year 2010.

We then obtained a detail of non-Federal subsequent disbursements, from October 1, 2009 through December 31, 2009 and noted that total non-Federal disbursements for the first quarter were \$25,219,000, compared to the amount accrued for the non-Federal A/P as of September 30, 2009 of \$31,444,000, noting a difference of \$6,225,000.

In addition, we noted that FLETC did not perform analyses over subsequent disbursements related to travel or Federal vendors, totaling \$4,758,000, to determine the accuracy of the September 30, 2009 accrual.

Recommendation:

We recommend that FLETC review best practices of other federal agencies that have had success related to accounts payable estimation and develop a process for the accounts payable accrual that is consistent with FLETC's business model.

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IV. UNITED STATES CITIZENSHIP AND IMMIGRATION SERVICES (USCIS)

USCIS – FMC 10-01 – Inadequate and/or Inconsistent Supervisory Review of Payroll Transactions (NFR No. USCIS 10-01)

We tested internal controls over human resources functions at USCIS by selecting a random sample of 45 employees receiving payroll checks in pay periods from October 1, 2009 – June 30, 2010. For each employee/ pay period selected, we requested the System Time and Attendance Reporting (STAR) Report, timesheet and relevant documentation supporting the timesheet (including requests for overtime/ leave, etc.). We noted the following:

- Two instances in which a timesheet was submitted; however, no supervisor approval was evident.
- One instance, related to one of the timesheets noted above, in which leave hours were recorded on the timesheet, however no authorization was evident.

Recommendations:

We recommend that USCIS:

- Provide employees, timekeepers and supervisors with additional training, resources and tools to increase their knowledge of the timekeeping process and the importance of ensuring that each step in the process must be accomplished accurately and timely.
- Request that timekeepers conduct monthly self-audits to assure time keeping documents are accurate and complete.

USCIS – FMC 10-02 – Inadequate and/or Inconsistent Supervisory Review of Journal Entries (NFR No. USCIS 10-02)

We judgmentally selected a sample of 45 journal entries (GJs) posted from October 1, 2010 – June 30, 2010. For each GJ selected, KPMG obtained the General Journal Header Information sheet and relevant documentation supporting the amounts posted. We noted that one of the GJ tested did not have evidence of approval indicated by initials on the General Journal Header Information sheet. However, we verified that the GJ was approved in the Federal Financial Management System (FFMS).

Recommendation:

We recommend that USCIS remind senior accountants, responsible for reviewing and approving free-form general journal entries, of the control requirements to document the approval of entry both in FFMS and by initialing the General Journal Header Information Sheet.

USCIS – FMC 10-03 – Improper Expensing of Capitalized Equipment (NFR No. USCIS 10-03)

During our interim disbursements test work as of May 31, 2010, we noted that six equipment items in the amount of \$693,000 were improperly expensed.

Recommendation:

We recommend that the USCIS Office of Administration and the Office of the Chief Financial Officer coordinate with the Office of the Chief Information Officer and the USCIS Contracting

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Office to establish policies and internal controls that will ensure that capitalized property transactions are accurately tracked and recorded in the Asset Management System as well as FFMS.

USCIS – FMC 10-04 – Deficiencies in the Deferred Revenue Quality Assurance Process and the Internal Control Environment (NFR No. USCIS 10-04)

We conducted site visits at various District Offices, Service Centers and the National Benefits Center (NBC) in May 2010 (floor-to-list testing). We noted that the California Service Center selected a sample of files from C3 data to conduct the file review; this is a list-to-floor procedure and is not compliant with the floor-to-list operating procedures established by the Quality Management Branch (QMB).

KPMG replicated management's floor-to-list testing of 680 applications for the third quarter of fiscal year (FY) 2010 and noted the following:

- Error rates indicative of a deficiency in internal control in the application adjudication process are identified through the USCIS quality assurance (QA) process and exist on USCIS's largest application tracking systems: CLAIMS 3 and CLAIMS 4.
- The deferred revenue QA process identifies discrepancies in the status of applications where errors between the system data and the hard copy application exist. Although consideration of the faulty data is included in the calculation of deferred revenue, the inclusion of faulty data presents an environment where the conditions in this NFR would be present in subsequent QA testing.
- USCIS continues to utilize multiple, non-integrated systems for processing immigration and naturalization applications.
- There were 23 instances where USCIS sample results differed from our results. We identified twenty overstatement errors and three understatement errors that were not identified by USCIS. The overstatements represented items that were listed as pending however we determined that they were adjudicated (or administratively closed) prior to May 20, 2010 and therefore should have been included in the error rate. The understatements identified represented items that were listed as not pending and were improperly included in the error rate as we noted that they were not adjudicated prior to May 20, 2010

Recommendations:

We recommend that USCIS:

- Identify system-wide errors in application status and administratively close applications that should no longer be considered pending.
- Establish agency-wide criteria, operating controls, and oversight for the timely update of application status in case tracking systems, CLAIMS 3, CLAIMS 4, and the Marriage Fraud Assessment System (MFAS).
- Centralize the review of the quarterly QA results reported by field offices and service centers prior to the use of the results in the determination of error rates.

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USCIS – FMC 10-05 – Inadequate Supervisory Review of the Intra-Departmental Eliminations Reconciliation (NFR No. USCIS 10-05)

We identified the following discrepancies during our review of the September intra-departmental reconciliation:

- The relationship thresholds reported for FLETC and ICE on the Unadjusted Treasury Information Executive Repository (TIER) USCIS Eliminations Worksheet do not agree to the materiality threshold provided by DHS OFM.
- The Adjusted TIER USCIS Eliminations Worksheet is mathematically incorrect due to incorrect formulas in the excel spreadsheet for various “total” amounts relating to MGT, CBP, PRE, FLETC and ICE trading partner balances.

As a result of our review, USCIS revised the Eliminations Reconciliation several times. We noted that despite the mathematical inaccuracies, the eliminating entries were properly prepared and the correct overall balances were reported on the Trading Partner Reconciliation Analysis Checklist. USCIS used individual line items as opposed to the “total” amounts reported on the worksheet to prepare the checklist, and as a result the balances were not misstated.

Recommendations:

We recommend that USCIS:

- Revise the summary worksheet to highlight the unadjusted and adjusted reconciliation differences, the change from unadjusted to adjusted differences, and compliance with the materiality threshold.
- Implement policies to ensure managers review the presentation of the summary worksheet to ensure that they understand the information presented.
- Revise standard operating procedures to reflect that eliminations adjustments are developed as a result of the review of difference balances per category as indicated by the initial TIER Eliminations Report and are not based on the summary schedule used for management review.

USCIS – FMC 10-06 – Untimely Capitalization of Leasehold Improvement Costs (NFR No. USCIS 10-06)

As a result of a review of leasehold improvement projects, USCIS recorded \$10.7 million in prior period adjustments to the leasehold improvements balance in the 2nd quarter of FY 2010.

Recommendation:

We recommend that USCIS continues to follow their current procedures for capitalization of leasehold improvement projects, and ensure that costs are capitalized in the proper accounting period

USCIS – FMC 10-07 – Inadequate and/or Inconsistent Supervisory Review of Personnel Actions (NFR No. USCIS 10-07)

We tested internal controls over the review and approval of a sample of 45 SF-52s as of September 30, 2010 and found 16 instances where a funding official did not approve the SF-52. We noted that there was no sign-off on the SF-52 by the authorizing official to evidence that a

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USCIS employee properly reviewed the SF-52 and verified that sufficient funding was available for the position.

Recommendation:

We recommend that the USCIS Office of Human Capital and Training establish procedures to ensure that the requestor, authorizer and funding manager sign recruitment SF-52s. The routing of SF-52s in the payroll system should be changed to ensure the SF-52s are routed through the funding manager; thereby ensuring there are three signatures on each recruitment SF-52.

V. IMMIGRATION AND CUSTOMS ENFORCEMENT (ICE)

ICE – FMC 10-01 – Inadequate Internal Controls over Leasehold Improvement Projects (NFR No. ICE 10-01)

We identified several discrepancies related to property, plant and equipment (PP&E) balances during our review of analytical relationships in the March 31, 2010 financial statements. In addition, in fiscal year (FY) 2010, ICE improved its process for capturing leasehold improvements from Office of Acquisition Management (OAM) Real Property Project Managers. As a result of the analytical review and the improved process related to leasehold improvements, the Office of Financial Management (OFM) recorded adjustments totaling approximately \$27 million, for FY 2009 and FY 2010, to correct for misclassifications between capitalized and non-capitalized leasehold improvements.

Recommendations:

We recommend that ICE:

- Develop comprehensive policies and procedures to assist in the appropriate tracking of leasehold improvement projects.
- Ensure that request worksheets, documents, and responses to OFM data calls for information on leasehold improvement projects are received by the due date.
- Ensure operating procedures and guidance includes appropriate measures to ensure that items are properly classified as in-use or in-progress.

ICE – FMC 10-02 – Inadequate Internal Controls over Internal Use Software Projects (NFR No. ICE 10-02)

KPMG identified several discrepancies related to PP&E balances during its review of analytical relationships in the March 31, 2010 financial statements. In addition, in FY 2010, ICE enhanced its process for validating software deployment dates by distributing a data call for estimated costs and completion dates for Software Development Projects. This data call identified items, totaling \$65 million, for FY 2009 and FY 2010 that were misclassified as in-service rather than in-development, or vice versa.

Recommendation:

We recommend that ICE develop comprehensive policies and procedures to assist in the appropriate tracking of leasehold improvement projects and to ensure that all pertinent ICE offices work collaboratively to resolve the control issues identified.

ICE – FMC 10-03 – Ineffective Controls over the Leave Audit Process (NFR No. ICE 10-03)

Each pay period, the United States Department of Agriculture (USDA) National Finance Center (NFC) processes payroll data which is submitted by ICE employees via WebTA. As part of payroll processing, NFC generates a Leave Error Report (LER) which identifies discrepancies between the leave balance per NFC's records and the leave balance per WebTA. The timekeepers for these employees are responsible for resolving leave errors within two pay periods. During interim testwork over a sample of 45 items, we identified 6 leave errors which were not researched and resolved in a timely manner.

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Recommendations:

We recommend that the ICE Office of Human Capital (OHC):

- Develop a system that ensures all timekeepers identify and correct leave errors in a timely manner.
- Implement a time and attendance policy and operating procedure that establishes responsibilities and internal control requirements related to time and attendance discrepancies.

ICE – FMC 10-04 – Ineffective Review Controls over the Preparation and Submission of the Contingent Legal Liabilities Documentation (NFR No. ICE 10-04)

We reviewed supporting contingent legal liability documentation as of June 30, 2010 and noted that the Contingent Liability Disclosure Memorandum did not contain signatures from “the highest ranking Financial Management Official, or his/her designee, and the highest ranking Component Legal Counsel, or his/her designee” as required by the DHS *Component Requirements Guide for Financial Reporting*. In addition, DHS OFM noted that ICE’s June legal liability reporting received a low rating on the DHS quarterly scorecard due to the need for extensive follow-up by DHS OFM and numerous changes to ICE’s draft submission based on DHS OFM review.

Recommendation:

We recommend that ICE reevaluate and update its current policies and procedures to ensure appropriate collaboration between offices and compliance with DHS policies and procedures.

ICE – FMC 10-05 – Ineffective Internal Controls over the SF-224 Process (NFR No. ICE 10-05)

During interim testwork, we noted that the Payroll Accounting and Reporting SF-224s for ICE and customer entities, NPPD and S&T, were not properly signed by a supervisor at the Dallas Finance Center (DFC) prior to submission of the SF-224 to Treasury.

Recommendation:

We recommend that ICE adheres to existing policies and procedures surrounding the SF-224 approval, sign-off and submission, including payroll submissions.

ICE – FMC 10-06 – Untimely Deposit of Immigration Bonds (NFR No. ICE 10-06)

During our FY 2010 interim testwork over open bonds payable, we noted 3 out of 45 immigration bonds were not deposited timely according to the Treasury Financial Manual. The 3 bonds were for amounts of \$5,000 or greater and were not deposited within 24 hours of receipt by the field office.

Recommendation:

We recommend that ICE provide additional guidance to all field offices to further emphasize the depositing requirements set by the Treasury Financial Manual, Title 6 Section 8030.20 that requires deposits totaling \$5,000 or more to be deposited on the same day received prior to

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depository cutoff time. Funds received too late in the day to meet the deposit cutoff time must be deposited the following day.

ICE – FMC 10-07 – Untimely De-obligation of Undelivered Orders Balances (NFR No. ICE 10-07)

KPMG judgmentally selected a sample of 45 items from the population of undelivered orders (UDOs) as of May 31, 2010 and identified 18 UDOs that were not valid as of May 31, 2010 and should have previously been de-obligated.

Recommendations:

We recommend that ICE:

- Continue to manage the validation and verification review process to ensure field personnel are following the established procedures to ensure invalid UDOs are de-obligated in a timely manner.
- Ensure sufficient personnel are dedicated to the timely review of open contracts for close-out determinations.

ICE – FMC 10-08 – Subject to Availability of Funding Agreements are not Obligated in the Federal Financial Management System (FFMS) at the Outset of the Agreement (NFR No. ICE 10-08)

During our FY 2010 interim testwork, we noted that 16 out of 57 ICE disbursement samples, totaling \$23,441,625, were related to obligations which were created in FFMS after the costs related to the invoice were incurred. In some cases, additional funding was added to the obligation after the receipt of the invoice because the funding in FFMS was not sufficient to pay the invoice.

Recommendation:

We recommend that ICE Enforcement and Removal Operations (ERO) coordinate with ICE Office of Budget and Program Performance (OBPP) and field offices to ensure funds are available to obligate at the beginning of the contract by ensuring the quarterly allocation of funds.

ICE – FMC 10-09 – Lack of Accrual of Capitalized Costs Incurred at Year-end for Software and Leasehold Improvement Projects (NFR No. ICE 10-09)

During our testwork over capitalized property additions as of June 30, 2010, we determined that property costs were capitalized in FY 2010 related to one leasehold improvement contract and three internal-use software-in-development projects where goods were received in FY 2009. We noted that ICE reported capitalized costs additions in FY 2010 of \$2.4 million for services on software and leasehold projects which were received in FY 2009 and did not accrue for \$2 million of services received prior to the June 30, 2010 financial reporting date.

Recommendation:

We recommend that ICE develops a process to accrue for capitalized costs incurred at period end related to software and leasehold improvement projects.

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ICE – FMC 10-10 – Lack of Comparison of Accounts Payable Estimate to Actual Amounts (NFR No. ICE 10-10)

We noted that the accounts payable accrual estimate methodology did not contain a provision to review the estimate against actual subsequent disbursement amounts. The review of subsequent disbursements was performed on a sample basis for all strata of disbursements.

The accuracy of the accrual cannot be verified because the methodology was sample based and did not include a provision to compare the estimate to actual amounts within a range which could be deemed insignificant.

Recommendation:

We recommend that ICE perform an accounts payable estimation look-back using actual disbursements made on a quarterly basis to verify whether the accrual is in the acceptable range for accuracy.

ICE – FMC 10-11 – Federal Financial Management System (FFMS) has the Ability to Make Duplicate Payments (NFR No. ICE 10-11)

ICE had not implemented adequate procedures to address the risk of duplicate payments in FFMS.

In January, 2010 a glitch in FFMS Release 2.13 caused duplicate payment amounts to be reported in FFMS. The glitch was identified and corrected through a patch in the same month, and all duplicate payment funds were recalled and refunded in FFMS. Throughout the fiscal year, the Dallas Finance Center (DFC) reviews disbursement data in FFMS to identify duplicate payments, which indicated that there were additional duplicate payments of less than \$1 million in FY 2010.

Recommendation:

We recommend that ICE management implement additional controls to prevent the processing of duplicate payments. Individuals with the responsibility to process payments should adhere to existing policies and procedures to ensure that all disbursements are processed correctly.

ICE – FMC 10-12 – IPAC Payments are Made Prior to the Establishment of an Obligation in FFMS (NFR No. ICE 10-12)

During our year-end test work over IPAC disbursements we determined that 1 out of 10 sample items were paid prior to the establishment of an obligation in FFMS.

Recommendations:

We recommend that ICE:

- Re-communicate to program offices the requirement to enter an obligation in FFMS prior to incurring costs.
- Develop and implement controls to monitor the execution of policies and procedures related to IPAC transactions.

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ICE – FMC 10-13 – Inability to Support Undelivered Orders Balances at Year-End (NFR No. ICE 10-13)

We selected a sample of UDO balances as of August 31, 2010 and requested supporting documentation including obligating documents and invoices. KPMG reviewed the initial documentation provided and submitted follow-up questions to ICE management on October 15, 2010. As of October 26, 2010 the “completion of fieldwork” date for the audit, ICE was unable to provide all documentation necessary to complete the testwork.

Recommendation:

We recommend that ICE implement procedures to ensure supporting documentation for key prepared by client (PBC) items is provided to central points of contact and validated prior to delivery to KPMG to ensure the completeness of the information.

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VI. MANAGEMENT DIRECTORATE (MGT)

**MGT – FMC 10-01 – Inadequate Internal Controls over Property, Plant & Equipment (PP&E)
(NFR No. MGT 10-01)**

MGT did not have adequate processes and internal controls in place to report construction in progress, leasehold improvements, and internal-use software in a timely manner.

Recommendations:

We recommend that MGT:

- Design, implement and document additional policies, procedures, and internal controls to ensure PP&E recorded in the sub-ledgers exists and is complete, accurate, and properly valued.
- Provide cross-training to the property management program and accounting personnel, including Sunflower Asset Management System, the Federal Financial Management System, and PRISM training.

VII. NATIONAL PROTECTION AND PROGRAMS DIRECTORATE (NPPD)

NPPD – FMC 10-01 – Inadequate Controls over Reporting of Internal Use Software Projects (NFR No. NPPD 10-01)

During testwork over NPPD USVISIT asset additions and general journal entries as of June 30, 2010, we noted several assets, totaling approximately \$21 million, which were recorded in SGL account 1750 – *Equipment* rather than SGL account 1830 – *Internal Use Software*.

Recommendation:

We recommend that NPPD work with USVISIT management to include a second review of dollar values on the quarterly reports by another Senior Budget Analyst to ensure a complete review of and the proper recording of property balances.

NPPD – FMC 10-02 – Inconsistent Application of Property Capitalization Thresholds (NFR No. NPPD 10-02)

During our review of capitalization policies at NPPD, we noted that the capitalization thresholds are not consistently applied to personal property.

In fiscal year (FY) 2010, NPPD – USVISIT’s personal property capitalization threshold was \$200,000. NPPD – Federal Protective Service (FPS) personal property capitalization threshold was \$50,000 and includes capitalization of all vehicles.

Recommendation:

We recommend that NPPD establish and follow policies and procedures to standardize the capitalization thresholds.

NPPD – FMC 10-03 – Untimely De-obligation of Undelivered Orders (NFR No. NPPD 10-03)

KPMG judgmentally selected a sample of 45 items from the population of undelivered orders (UDOs) as of May 31, 2010 and identified 20 items that were not valid as of May 31, 2010 and therefore should have been de-obligated. We noted that several items in the sample were from FY 2006 and prior and had not been reviewed.

Recommendation:

We recommend that NPPD reevaluate the current process for reviewing unliquidated obligations for excessive residual funds that should be de-obligated and ensure that the Financial Management Office, Office of Acquisition Operations, DHS Office of Procurement Operations (OPO), and the program offices continue to collaborate as standard operating procedures are developed for FY 2011.

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NPPD – FMC 10-04 – Subject to Availability of Funding Agreements not Obligated in the Federal Financial Management System (FFMS) at Outset of Agreement (NFR No. NPPD 10-05)

During our FY 2010 testwork over non-IPAC disbursements we noted that 9 out of 67 samples were related to obligations which were created in FFMS after the costs related to the invoice were incurred. In some cases, additional funding was added to the obligation after the receipt of the invoice because the funding in FFMS was not sufficient to pay the invoice

Recommendation:

We recommend that NPPD coordinate with the budget office and field offices to ensure funds are available to obligate at the beginning of the contract by ensuring the quarterly allocation of funds.

NPPD – FMC 10-05 – Obligations are not Recorded in FFMS in a Timely Manner (NFR No. NPPD 10-06)

We judgmentally selected a sample of 67 obligations as of May 31, 2010, August 31, 2010, and September 30, 2010 and identified 10 obligations which were not recorded timely in FFMS after the Contracting Officer's award.

Recommendation:

We recommend that NPPD reassess the current process to ensure funds are obligated in a timely manner, which will include the collaboration of the Office of Financial Management, program offices, and DHS OPO.

NPPD – FMC 10-06 – Payment Processing without Contracting Officer Certification (NFR No. NPPD 10-07)

During testwork over disbursements as of August 31, 2010, we noted that one invoice was submitted to the Dallas Finance Center (DFC) to be processed for payment that had not been certified by the Contracting Officer. NPPD did not review the invoice for certification before sending it to DFC for payment. DFC did not review the invoice for Contracting Officer approval and processed the payment, for \$3,870,739, along with \$267 of Prompt Payment Interest that should not have been paid.

Recommendation:

We recommend that NPPD continue to utilize WebView to ensure that the COTR are notified of invoices that are pending approval. However, due to WebView system limitations that prevent the COTR and Contracting Office from electronically approving invoices for payment in the system, NPPD should consider the possibility of altering the current WebView features to provide review and approval access to Contracting Officers.

VIII. SCIENCE AND TECHNOLOGY DIRECTORATE (S&T)**S&T – FMC 10-01 – Inadequate Controls over Reporting of Construction in Progress (CIP) and Buildings (NFR No. S&T 109-01)**

S&T improperly reported \$11.8 million in non-capitalizable costs as CIP related to the National Biodefense Analysis and Countermeasures Center (NBACC). The building was placed into service in fiscal year (FY) 2010 and subsequently depreciated based on a total cost which included some improperly capitalized costs.

Recommendations:

We recommend that the S&T Office of the Chief Administrative Officer (OCAO):

- Finalize procedures drafted to address the reporting of CIP and buildings.
- At least quarterly, the S&T OCAO should request a listing of furniture and equipment installed or attached to land, buildings, and structures from the FLETC contracting officer or contracting officer's technical representative to ensure that furniture and equipment costs are properly included in CIP.
- Coordinate with ICE/Office of Financial Management (OFM) to ensure that the furniture and equipment are included in CIP.

S&T – FMC 10-02 – Insufficient Controls to Ensure the Timely Reporting of Internal Use Software (IUS) in Development and Personal Property (NFR No. S&T 10-02)

During our testwork over capitalized property additions as of June 30, 2010, we determined that several capitalized property costs were related to goods or services which were received in FY 2009. The costs related specifically to the Microbial Forensics Encyclopedia (MFE) software in-development project and three government-furnished equipment (GFE) personal property items as follows:

- S&T incurred software costs of \$520,888 for MFE in FY 2009 but reported these costs in FY 2010. Additionally, we noted that S&T incorrectly omitted \$27,000 in capitalized cost related to this project.
- S&T received three GFE personal property items valued at \$2.2 million in FY 2009 but did not capitalize the costs until FY 2010.

Recommendations:

Related to IUS, we recommend that:

- The S&T Business Operations Division (BOD) conduct additional training for all S&T Divisions reporting IUS activity to ensure development costs are reported timely and in the proper accounting period.
- The S&T BOD work with S&T Finance and Budget Division and ICE/OFM to ensure that reported development costs are reconciled to the general ledger in a timely manner and are reported in the proper accounting period.

Related to GFE, we recommend that:

- The S&T OCAO and the S&T Finance and Budget review/revise S&T PP&E policies and procedures to address the above weaknesses.
- The S&T OCAO provide training for OCAO and Office of National Labs personnel.

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- The S&T OCAO work with ICE/OFM to ensure GFE is recognized in the proper accounting period.

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IX. TRANSPORTATION SECURITY ADMINISTRATION (TSA)

TSA – FMC 10-01 – Warehouse Inventory System and Procedures (*NFR No. TSA 10-01*)

During our walkthrough of the warehouse inventory system and related processes, we noted that TSA did not have documented policies and procedures to ensure that the warehouse management system, supported by a third party contractor, and related outputs were adequately controlled, monitored, and reconciled to TSA's system of record. Specifically we noted that:

- The third party contractor's inventory system (Warehouse Librarian) password settings did not meet the password requirements required per DHS policy including:
 - Password length;
 - Password strength and complexity;
 - Failed password attempts; and
 - Password expiration.
- The third party contractor was not performing monthly audit log reviews of the Warehouse Librarian system. The Warehouse Librarian has the ability to log the system's activities. However, these logs are not being reviewed by anyone from the third party contractor or TSA.
- The Warehouse Librarian System does not lock out application users after 90 days of inactivity.
- The daily tape back-up of the Warehouse Librarian System's data was stored in the same room as the server that hosts the production data.
- Reconciliations between the third party contractor's system and the Sunflower Asset Management System (SAMS) were not fully implemented to include the following:
 - Reviews to ensure the assets queried from SAMS and the third party contractor for reconciliation is complete and accurate (agrees to the g/l, includes the correct date fields, assets, etc.).
 - Reviews to ensure the reconciliation is accurate (mathematically, etc.).
 - Processes to ensure any significant reconciling items are resolved, recorded, and reviewed on a timely basis.

Recommendations:

We recommend that TSA:

- Adopt DHS password security length and complexity requirements for Warehouse Librarian with the exception of special characters since Warehouse Librarian will not accept special characters in a password string.
- Set Warehouse Librarian passwords to expire every 180 days.
- Review Warehouse Librarian logs on a monthly basis, at a minimum.
- Update warehouse operating procedures to require that Warehouse Librarian accounts are manually disabled for any employees following 90 days of inactivity or upon termination of employment at the third party contractor, whichever is sooner.
- Prepare an addendum to the Security Equipment Management Manual (SEMM) to describe the reconciliation process.

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TSA – FMC 10-02 – Compliance with Human Resources Related Laws (*NFR No. TSA 10-02*)

TSA did not fully implement processes and controls to ensure that payroll calculations and employee's annual leave balances were properly recorded and supported by available documentation. In performing our compliance procedures over payroll transactions, we identified the following:

- 1 FEGLI error as the FEGLI calculation per the payroll did not agree with the FEGLI calculator provided on the OPM website.
- 3 instances where updated FEHB enrollments were not included in the eOPF as required by policy, however supporting documentation was available once requested.
- 3 Thrift Savings Plan (TSP) errors as the TSP deduction was unsupported by an election form or substitute documentation.
- 1 error where a FEGLI form was not included in the electronic official personnel file (eOPF) and the employee had elected coverage other than standard basic.
- 9 errors where an employee had a discrepancy between the annual and sick leave balances listed per the Statement of Earnings and Leave and the webTA timesheet.

Recommendations:

We recommend that TSA:

- Verify all supporting documentation for benefit elections are uploaded in the official personnel file (OPF) in a timely manner for both new hires and employee changes.
- Implement procedures to ensure that payroll calculations, elections, and changes in annual leave are properly calculated and recorded based on retained supporting documentation.
- Through the use of random leave reviews, ensure compliance with record retention, verify proper administration of employee's leave election and validate the accuracy of changes made to employees leave balances.

TSA – FMC 10-03 – Accrued Payroll Controls (*NFR No. TSA 10 -03*)

During our walkthrough of the accrued payroll process, we noted that TSA:

- Did not have adequate policies and procedures to ensure that TSA's HR provider performed a quality assurance over the processing of employee retirements.
- Did not have adequate policies and procedures to ensure that TSA's HR provider performed sufficient quality assurance (QA) over the entry of personnel changes.

Recommendations:

We recommend that TSA:

- Work with the service provider to implement a quality review process for retirements
- Continue to implement improvements and monitor Lockheed Martin's QA process and conduct a separate Federal QA process.

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TSA – FMC 10-04 – Accounts Receivable Controls (NFR No. TSA 10 -04)

During our walkthrough of the accounts receivable process, we noted the following:

- TSA did not have documented policies and procedures in place to ensure a detailed review of the bankruptcy portion of the allowance for doubtful accounts and to ensure that all bankruptcy claims and payments received by TSA were completely and accurately updated in the analysis.
- TSA's air carrier audit procedures were not properly designed to ensure the fees remitted and used for the accounts receivable balance calculation are complete and accurate. Specifically, we noted the selection of carriers for audit is not formally documented based on factors such as risk and adequate coverage. Additionally, procedures were not in place to ensure the results of the carrier audits selected were received and reviewed timely. We noted that the United Airlines audit was not completed timely (the audit was conducted in August of fiscal year (FY) 2009 and was not available in May 2010)

Recommendations:

We recommend that TSA:

- Review and update existing procedures to ensure timeliness of the air carrier audits.
- Review and update existing documentation to include risk assessment analysis upon which selection of air carriers for audit will be based.
- Review and update existing procedures to ensure completeness of the bankruptcy portion of the allowance of doubtful accounts analysis.

**TSA – FMC 10-05 – Compliance with the Debt Collection Improvement Act of 1996 (DCIA)
(NFR No TSA 10-06)**

During FY 2010 TSA developed policies and procedures to address prior year non-compliance with DCIA. We noted however, the policy was not properly designed to ensure full compliance with the provisions of DCIA for FY 2010. Specifically, we noted the policy stated that the Office of Revenue will identify all delinquent debt greater than 180 days old for which demand letters have been sent; however, the policy does not address debts that are past due over 180 day where the demand letters have not been sent. TSA began cleanup activity of transferring debt to Treasury in late FY 2009 that continued into FY 2010. We note that the law specifically applies to past due, legally enforceable non-tax debt over 180 days (regardless of whether a demand letter has been sent).

Specifically we noted the following instances of non-compliance:

- For 58 of 65 sample items selected, we noted that the demand letters were not sent to the debtor in a timely fashion.
- For 18 of 65 sample items selected, we noted that TSA did not refer debt outstanding 180 days or greater to the Department of the Treasury in a timely manner.
- For 26 of 65 sample items selected, we noted that TSA did not refer debt outstanding 180 days or greater to the Department of the Treasury.

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Recommendation:

We recommend that TSA review and update existing policies to identify all debt past due and issue demand letters in full compliance with DCIA.

TSA – FMC 10-06 – Ineffective Controls over the Time and Attendance Process (NFR No. TSA 10-08)

During our testwork over the time and attendance process, and our review of the related supporting documentation we noted the following conditions:

- Controls over the review, approval, and retention of annual leave request forms were not operating effectively. Specifically:
 - 7 of 8 airports maintained the WebTA leave request submission, TSA’s equivalent of OPM Form-71, *Request for Leave or Approved Absence*, with time sheet documentation, rather than destroying this form once reviewed and approved by the employee and supervisor as noted in TSA’s policy.
 - 1 leave request was not dated by the supervising approver evidencing timely review and approval of the leave.
- Controls over the review and approval of timesheets were not operating effectively. Specifically, we noted:
 - Supervisor review and approval of timesheet was not dated (5 Instances):
 - 1 of 80 overtime requests was not dated by the approver evidencing timely review and approval.
 - 4 of 80 timesheets were not dated by the approver evidencing timely review and approval.
 - Timesheet was not signed by the employee (1 Instance):
 - 1 of 80 instances where the timesheet was not signed by the employee, despite leave taken.
 - Untimely approval (2 Instances):
 - 1 of 80 instances when the timesheet was approved on March 13, 2010. However the employee did not sign their timesheet until July 27, 2010.
 - 1 of 80 instances where the timesheet was signed 8 days prior to period end.
 - Discrepancies between timesheet and supporting documentation (1 Instance):
 - 1 of 80 instances where the supervisor approved overtime totaling 11 hours, however, the timesheet submitted only showed 10 hours of overtime worked.
- Policies and procedures were not properly implemented at the airport sites to ensure data entered into WebTA by timekeepers, once the supervisor had reviewed and approved the employee’s timesheet was accurate. Specifically we noted that a review of the employee’s timesheet was not performed by certifiers to ensure time is entered accurately into the system at all locations.

Recommendations:

We recommend that TSA:

- HRAccess personnel train appropriate personnel on time and attendance processing and proper retention of payroll related documents.

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- Supplement online training for timekeepers and supervisors to sufficiently document prerequisite knowledge required to perform job functions in accordance with TSA Office of Human Capital Time and Attendance Administration Manual.

TSA – FMC 10-07 – Fund Balance with Treasury Controls (NFR No. TSA 10-10)

During our walkthrough of the fund balance with Treasury process, we noted there were no formal documented procedures and controls in place throughout the year to ensure that the Segregation of Duties query included all entries processed throughout the fiscal year. The Segregation of Duties query was used by TSA personnel to determine the individuals who enter and approve warrants, transfers, and rescissions into the Budget Execution Module were properly segregated. As a result, there was the potential for an individual to both enter and approve a warrant, transfer, or rescission into the Budget Execution Module without it being detected and corrected in a timely manner.

Recommendations:

We recommend that TSA:

- Perform a monthly review of budget execution transactions to ensure separation of duties between the approver and preparer.
- Expand the monthly review to include a quarterly reconciliation of warrant, transfer, and rescission transactions from the budget execution query report to CAS to ensure completeness of the budget execution query report.

TSA – FMC 10-08 – Accounts Payable Process (NFR No. TSA 10-12)

During our walkthrough of the accounts payable (AP) process, we noted:

- In the March 31, 2010 Financial Reporting Certification, TSA qualified its certification as the process for accruing for Other Transaction Agreements (OTAs) was being modified. As a result, TSA did not send confirmations for OTA's and did not record a full accrual. Specifically, TSA stated: "Accounts Payable: TSA did not record a full accrual for accounts payable related to OTAs. TSA has modified its process for performing this accrual but did not send out confirmations to the vendors for the March reporting period."
- The contracting officer's technical representative's (COTR) or contracting officer's (CO) review of intragovernmental payment and collection (IPAC) transactions was not properly designed to ensure documented timely review.
- The AP subledger to GL reconciliation was not properly designed to ensure documented timely review.
- A lack of documented policies that ensure the results of the annual look-back analyses of the prior year balances are reviewed by management, discussed with management and appropriate adjustments taken, if appropriate

Recommendations:

We recommend TSA:

- Prepare quarterly OTA AP accruals.
- Develop timelines for the AP accrual process during the first quarter of FY 2011 for the entire year, communicate to staff involved, and monitor through completion.

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- Require management to note its approval of the AP subsidiary to GL reconciliation by either signature or email.
- Conduct an annual look back analysis at the prior year OTA accrual and require management to note its review of the look back by either signature or email.
- Develop processes and procedures for the COTR to review IPACs.
- Review existing Internal Standard Operating Procedures (ISOP) and policies regarding AP accruals and update to reflect the recommendations as needed.

TSA – FMC 10-09 – Untimely Update of Asset Transfers (*NFR No. TSA 10-15*)

TSA personnel did not consistently adhere to its policy requiring the timely update of the Sunflower Asset Management System and retention of supporting documentation.

Specifically, we noted the following instances where assets were not physically located at the location listed in TSA's SAMS and TSA was unable to provide supporting documentation evidencing the transfer of the asset:

- 5 instances where assets were transferred from Seattle airport prior to the date of the site visit. TSA was unable to provide transfer documentation and noted SAMS was not updated timely to reflect these transfers.
- 2 instances where assets were transferred from the Houston airport to the warehouse and TSA was unable to provide documentation to track the movement of the equipment.

Recommendations:

We recommend that TSA:

- Update its policies and procedures to ensure proper timing of the recording of property transfers between locations in SAMS.
- Develop policies and procedures for adequate documentation of the pick-up and delivery of TSA property to include training of all required personnel.
- Ensure transactions only occur upon the physical movement and receipt of TSA property.
- Develop and monitor metrics to ensure transactions are being completed timely and properly and the proper documentation is completed as necessary.

TSA – FMC 10-10 – Undelivered Orders (UDO) Documentation (*NFR No. TSA 10-16*)

TSA lacked sufficient internal controls to ensure proper adherence to contract management policies, procedures, and controls.

Specifically, we noted the following instances where the balance or general ledger activity was recorded improperly:

As of June 30, 2010:

- One IPAC return was applied to the wrong contract thus overstating the selected purchase order balance by \$17,525.
- One UDO where the period of performance (POP) for this contract expired on March 10, 2008. KPMG noted that a modification to de-obligate the remaining funds was executed in September 2008 but was never recorded in the General Ledger. As such, we noted that the

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balance was overstated by \$6,949,250.

- One item where the balance per the obligating document was \$3,829,480; however the balance per the GL was \$4,429,480.

As of August 31, 2010:

- One sample item where the transaction line of obligation activity was \$23 understated.

As of September 30, 2010:

- One item where the transaction line of obligation activity was \$5,383 understated.
- One item where the transaction line of obligation activity was \$18,483 overstated.
- One item where the transaction line of obligation activity was \$370 overstated.
- One item where the obligation balance was not initiated for deobligation timely.

Additionally, we noted controls were not always operating effectively or according to policies. Specifically, we noted instances where:

- Obligations were recorded in the GL prior to execution.
 - 8 instances in June 30, 2010 testwork
 - 1 instance in August 31, 2010 testwork
 - 2 instances in September 30, 2010 testwork
- The obligating document was not posted to the GL timely.
 - 3 instances in June 30, 2010 testwork
 - 2 instances in August 31, 2010 testwork
 - 3 instances in September 30, 2010 testwork
- The object class is incorrectly coded.
 - 30 instances in June 30, 2010 testwork
 - 1 instance in August 31, 2010 testwork
 - 1 instance in September 30, 2010 testwork
- TSA incurred and paid charges related to services provided outside of the POP for the contract.
 - 1 instance in September 30, 2010 testwork
- TSA recorded transactions which resulted in the obligation having a negative balance.
 - 1 instance in the amount of \$131,426 in September 30, 2010 testwork.

Recommendations:

We recommend that TSA:

- Review existing policies and procedures to ensure that modifications for de-obligation of funds that pertain to expired option periods for active contracts are put into place.
- Review existing policies and procedures for contracting actions released by the CO in the Contract Information Management System to ensure they are adhered to and properly documented.
- Review existing policies and procedures for object classes to ensure TSA program business management offices are utilizing the proper object class codes on purchase requisitions and provide training to the user community.
- Review reclassification procedures to ensure sufficient controls are implemented to ensure that reclassifications are properly recorded.
- Review policies and procedures for entering manual obligations in the general ledger to ensure timely posting of obligations.

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TSA – FMC 10-11 – Grant Monitoring and Compliance with the Single Audit Act (NFR No. TSA 10-23)

As a result of audit follow up on prior-year finding, TSA developed written policies and procedures for monitoring certain types of grants and grant expenditures. However, we noted that formal written policies, procedures, and controls for the monitoring of expenditures associated with the Canine and Law Enforcement Officer (LEO) programs along with OTAs and Letters of Intent (LOIs) were not in place throughout the year or documented in a centralized comprehensive manner.

Recommendation:

We recommend that TSA develop policies and procedures to monitor expenditures and work performed related to other transaction agreements for the Canine and LEO programs as well as OTAs and LOIs.

TSA – FMC 10-12 – Review of Journal Entries (NFR No. TSA 10-26)

TSA's controls were not fully effective in FY 2010 to ensure that journal entry reviews were effective and supporting documentation was readily available. Specifically, we noted two instances related to property entries where supporting documentation used during the review of the journal entry was not filed and as such, was not readily available upon request. Additionally, we noted both entries were approved as reversing, however, they should not have been reversing entries. A subsequent entry had to be posted to correct the error. The specific entries are as follows:

- One item did not have a supporting memorandum of record readily available that tied to the entry. Additionally, this entry was incorrectly coded as a reversing entry and was not corrected via the review and approval process prior to posting the initial entry. We noted a subsequent entry (in a different reporting month) had to be posted to correct the reversal.
- One item did not have appropriate supporting documentation readily available that tied to the entry. Additionally, this entry was incorrectly coded as a reversing entry and was not corrected via the review and approval process prior to posting the initial entry. We noted a subsequent entry (in a different reporting month) had to be posted to correct the reversal.

Recommendations:

We recommend that TSA:

- Review and update ISOP as necessary.
- Provide training on journal entry procedures to new hires as well as refresher training for current employees.
- Have the Internal Control Branch continue to perform reviews of the journal entry process.

TSA – FMC 10-13 – Review of Service Organizations' Internal Controls (NFR No. TSA 10-27)

During FY 2010, TSA was unable to fully demonstrate the impact of its service providers' control environment on TSA's control environment. Specifically, Lockheed Martin's control environment was not evaluated for the impact on TSA's environment. In addition, a period update from the SAS 70 report issuance date to the DHS balance sheet date was not documented

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for United States Department of Agriculture's (USDA) National Finance Center's (NFC) control environment.

Recommendations:

We recommend that:

- The Office of Financial Management, Internal Control Branch continues to work with the Office of Human Capital to evaluate Lockheed Martin's control environment.
- The Office of Financial Management, Internal Control Branch continues to follow the DHS issued policy and work with DHS to receive and review the period update for the NFC SAS 70 report.

TSA – FMC 10-14 – Accounts Payable Balance (NFR No. TSA 10-29)

Controls over the accounts payable accrual process were not fully effective, which resulted in errors to the balance sheet as of September 30, 2010. For example we noted that:

- The property accrual was understated in the draft financial statements due to unconfirmed or estimated vendors being excluded from analysis. Once identified, TSA reevaluated the need for an additional accrual related to incurred but unreported expenditures.
- The non-Federal accounts payable accrual was overstated in the draft financial statements. Data collected for the statistical calculation of the non-Fed accounts payable accrual inappropriately included and excluded certain vendors.

Recommendations:

We recommend that TSA:

- Review and update the property accounts payable accrual ISOP.
- Perform look backs on general non-Federal accounts payable to determine reasonableness of the accrual estimate.
- Review and update the general non-Federal accounts payable procedures ISOP as necessary.
- Develop and record accounts payable accruals on a quarterly basis.
- Have the Internal Control Branch continue to perform reviews of the accounts payable accrual process.

TSA – FMC 10-15 – Lease Accounting and Disclosure (NFR No. TSA 10-30)

During our testwork over leases, we noted fully effective controls were not in place for the entire year to ensure:

- The future minimum lease payments excluded amounts un-related to rental payments. We noted one instance where payments made for leasehold improvements were improperly included in the footnote disclosure.
- We noted three instances where improvements paid for by TSA were included in the deferred rent liability calculation; two of these instances were corrected prior to year-end.

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Recommendations:

We recommend that TSA:

- Review and document lessons learned from the FY 2010 cleanup and review activity for identifying and accounting for leases.
- Review the lease and leasehold improvement ISOPs and revise the straight-line analysis and deferred rent liability calculations.
- Implement and maintain processes for recording leases and leasehold improvements.
- Have the Internal Control Branch perform periodic reviews of lease and leasehold improvement activity.

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X. UNITED STATES COAST GUARD (USCG)

USCG – FMC 10-01 – Legal Liability Reporting (NFR No. USCG 10-12)

We performed test work in fiscal year (FY) 2010 for contingent legal liabilities (CLL) and identified the following:

- USCG has not documented the rationale supporting the 20 percent threshold prescribed to perform the quarterly floor to file checks of open case files in the desktop procedures for CLL.
- Mathematical errors on the historical payout rate calculation, management schedule, and aggregate reports including:
 - Use of incorrect outliers to calculate the historical payout rate for “loss of profits” claim type affecting the rate by 0.0037 percent. As the Coast Guard rounds to two decimals for calculating the liability, this difference did not affect the ending liability balance. Although this did not cause a financial statement impact, USCG did not remove the correct outliers in accordance with the approved historical payout rate calculation methodology.
 - Incorrect payout rate was applied to “affirmative defense” claims type on the Management Schedule and Aggregate Report as of June 30, 2010 causing an overstatement of \$2,723,014.
 - Incorrect exclusion of certain “contract” claims type in the amount of \$606,686 due to a formula error on the Aggregate Report as of June 30, 2010, which potentially understated the CLL balance and upper liability range in the CLL disclosure.
- USCG included a case in the CLL balance as of June 30, 2010 as an open case; however, per inspection of the Judgment Fund Report, the associated claims were paid on June 2, 2010. Therefore, the case should have been reported as closed as of June 30, 2010, resulting in an overstatement of \$2,716,200 to the CLL balance as of June 30, 2010.

Recommendations:

We recommend that the Coast Guard:

- Review, document, and implement a process to support the 20% threshold prescribed for the quarterly floor to file check of open case files.
- Develop, document, and implement controls over the mathematical calculation of the historical payout rate calculation, management schedule, and aggregate reports to prevent errors.
- Develop, document, and implement a process to ensure that settlements paid out of the Judgment Fund are properly captured in the quarterly legal liabilities balance calculation.

USCG – FMC 10-02 – Accrued Payroll and Unfunded Leave Accrual (Military) (NFR No. USCG 10-22)

Coast Guard’s accrued payroll and unfunded leave process related to military payroll lacked appropriately designed policies/procedures and internal controls as follows:

- Coast Guard lacked appropriate controls to identify an incorrect pay change made to 2 of 25 sampled Active/Reserve members.

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- Coast Guard was unable to provide documentation to support 3 of 25 sampled Retiree/Annuitant member's tax withholdings.
- Coast Guard recorded an unfunded leave liability at June 30, 2010 and September 30, 2010 for 49 and 14 retired or separated employees in the amount of \$200,135 (0.11 percent error) and \$50,129 (0.03 percent error), respectively, even though they no longer had any leave balance outstanding as of those dates.
- Coast Guard manually over-adjusted one member's leave balance by one day as of September 30, 2010.

Recommendations:

We recommend that Coast Guard continue to reinforce, test, and validate internal controls to ensure the policies and procedures requiring management review of member personnel data changes at the Servicing Personnel Offices (SPOs) and the Pay & Personnel Center (PPC), include:

- Review and approval for pay transactions.
- Review of source documentation for request and approval of leave transactions.
- Review of account balances included in the leave liability calculation.

USCG – FMC 10-03 – Operating Materials and Supplies (OM&S) (NFR No. USCG 10-23)

We performed test work in FY 2010 over OM&S at the two inventory control points (ICPs) and identified the following:

Interim Results: October 1, 2010 – June 30, 2010

- Out of a sample of 26 items at Surface Forces Logistics Center (SFLC), KPMG identified 7 exceptions associated with the weighted-average pricing. Exceptions resulted from data entry errors and a lack of historical supporting documentation to support past receipt items, which affected the weighted-average price. The exceptions resulted in a known overstatement of \$4,440,046 and an understatement of \$264,725 from a population of \$72.5 million. The overstatement amount includes approximately \$4.4 million category 3 (e.g. items held for a vessel in-transit) items that have been issued to the end user, and therefore should not be in the general ledger.
- Out of a sample of 64 items at Aviation Logistics Center (ALC), KPMG identified 13 exceptions associated with the weighted-average pricing. Similar to SFLC, exceptions resulted from data entry errors and a lack of historical documentation to support past receipt items, which affected the weighted-average price. The exceptions resulted in a known overstatement of \$53,424 and an understatement of \$20,029 from a population of \$152 million.
- Out of a sample of 34 receipts, KPMG identified 1 item that appeared to be correctly classified as OM&S; however, the SFLC could not supply a standard classification form to document this classification.
- From a selected sample of 40 disposals, KPMG identified 17 items where the ALC could not supply proper disposal event documentation.
- KPMG also noted gaps in policies and procedures that prevent consistently implemented control procedures between ALC and CG Air Stations. Inconsistent document retention requirements and non-standardized forms can increase the risk of control findings. For

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example, one USCG Air Station could not provide documentation for 1 out of 34 selected items.

Final Results: July 1, 2010 – September 15, 2010

- KPMG noted that one USCG Air Station could not provide source documentation for 1 out of the 33 selected items.
- Out of a sample of 12 items at SFLC, KPMG identified 2 exceptions associated with the weighted-average pricing. Both exceptions resulted from items classified as repairables but were recorded as consumables in SGL account 1511, *Operating Materials and Supplies Held for Use*. These exceptions resulted in a known overstatement of \$610,197.
- Out of a sample of 22 items at ALC, KPMG identified 2 exceptions associated with the weighted-average pricing. Both exceptions were a result of timing lags between receipt of the invoice and execution of the IPAC. These exceptions resulted in a known overstatement of \$1,056.

Recommendations:

We recommend that Coast Guard:

- Review and remediate issues concerning classification between repairables (recorded as PP&E) and consumables (recorded as OM&S), valuation procedures involving weighted-average pricing, the time lag between the execution of IPACs by other federal agencies, and the disposal of material excess to the CG need.
- Record differences identified during the FY 2010 valuation testing for sample items reviewed for SFLC and ALC.
- Perform an analysis to determine the cause of the errors identified during the FY 2010 testing and identify improvements to controls and procedures.
- Review quarterly validation procedures and make changes to further emphasize the need to perform valuation validation procedures at the ICPs as part of the quarterly review procedures.
- Review the policies, procedures, and internal controls associated with material handling forms used at air stations as well as the need for standardized forms at these locations.

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XI. UNITED STATES SECRET SERVICE (USSS)

USSS – FMC 10-01 – Adjustments in the USSS Counterfeit Footnote Support Schedule (*NFR No. USSS 10-01*)

Each month, USSS Headquarters (HQ) requires personnel in its field offices to prepare a report of the amount of seized property on hand detailing the reasons for the change from the prior month (e.g., new seizures, destructions, adjustments). A supervisor at each field office is required to review this data and certify to its accuracy before providing it to HQ. HQ then uses this information to prepare a consolidated reconciliation and to aggregate the data reported by the field offices.

At year-end, HQ personnel prepared and reviewed a schedule compiling the data reported in each month's reconciliation, which was used in preparation of the prohibited seized property footnote disclosure. The schedule reported the new, destroyed, and adjustment amounts for each month which resulted in the adjusted month totals. The new, destroyed, and adjusted month totals correspond to the Monthly Seized Counterfeit Reconciliations; however, the adjustment column was a calculation and was not reflected on the reconciliation. Therefore, USSS cannot identify the nature and cause of the adjustments reported each month.

Recommendation:

We recommend that USSS remind field offices to follow established policies and procedures, and submit their monthly submissions timely and accurately.

XII. CONSOLIDATED (CONS)

CONS – FMC 10-01 – Tracking System for Ethics Training, Public Financial Disclosures, and Confidential Reports (NFR No. CONS 10-01)

During our testwork over entity-level controls, we noted that DHS had not finalized and issued procedural guidance for financial disclosure reporting and department-wide supplemental ethics guidance, including the DHS' supplemental Standards of Conduct. Additionally, DHS did not have a single, department-wide system to record and monitor required ethics training and to record the positions that required their incumbents to file financial disclosure reports. Consequently, DHS was unable to monitor the filing status of all required reports.

Recommendations:

We recommend that the Designated Agency Ethics Official (DAEO), in conjunction with the Chief Human Capital Officer and the Chief Information Officer, as appropriate:

- Continue to work to issue procedural guidance for financial disclosure reporting, the Secretary's Statement on Standards of Conduct, and the Department's supplemental ethics directive.
- Continue to develop and implement a department-wide system to ensure all employees who must complete financial disclosure reports/receive mandatory ethics training are identified and meet the requirements.

CONS – FMC 10-02 – Preparation of the Departmental Interim Legal Letter (NFR No. CONS 10-02)

DHS's Office of General Counsel (OGC) did not maintain a central database, which stores a comprehensive list of all legal cases, that was readily available upon request. Although some components maintain their own database, others need to request a data call in order to analyze and respond to a legal request. However, we noted that OGC was able to represent, through its knowledge of the pending cases and historical payouts, that the likelihood of loss from cases not aggregated in the legal letter is immaterial to the financial statements.

Recommendations:

We recommend that DHS:

- Update current policies and procedures to emphasize the need for thorough, complete, and accurate data.
- Update legal liability workshops to include activities focused on completeness of component legal liability data.
- Conduct a Department-wide risk assessment on legal liability processes at components. Analyze results and develop mission action plans to target high risk areas.
- If available, pursue opportunities to implement a department-wide automated system or database.

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CONS – FMC 10-03 – SAS 70 Rollforward Procedures (NFR No. CONS 10-05)

During FY 2010, DHS did not have policies and procedures to perform or document a period update, from the SAS 70 report issuance date to the DHS balance sheet date.

In addition, no period update from the SAS 70 report issuance date to the DHS balance sheet date was documented for USDA’s National Finance Center’s control environment.

Recommendation:

We recommend that DHS revise its guidance to include the rollforward period for SAS 70 reports.

CONS – FMC 10-04 – Discrepancies Exist Between DHS Guidance and the Treasury Information Executive Repository (TIER) Analytical Report (NFR No. CONS 10-08)

We identified the following exception upon comparing the DHSTIER Analyt2 Table and the OFM Analytics Guidance Documents:

- General Fund’s Analytic #2: (Budgetary Cash = Proprietary Cash - Activity (Direct Method)) was inappropriately configured.

“Budgetary Cash = Proprietary Cash - Activity (Direct Method),” includes the year-to-date activity (A) for account 4176, calculated as the difference between ending balance and beginning balance. However, the analytic incorrectly calculates this as the sum of the ending and beginning balances for account 4176

Recommendation:

We recommend that DHS OFM modify the DHSTIER Specification Table to be consistent with the USSGL guidance relating to Tie-Points, and ensure that the analytic formulas are accurate and complete.

Department of Homeland Security
Crosswalk - Financial Management Comments to NFRs
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Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
CBP	10-01	Untimely Deobligation of Inactive Obligations	F			
CBP	10-02	FFMIA: Lack of System Integration and Compliance with the USSGL at the Transaction Level Related to Inventory and Related Property, Net			J	
CBP	10-03	ACS Limitations – Review of Prior Related Drawback Claims and Selectivity for Underlying Consumption Entries		H		
CBP	10-04	ACS Deficiencies over Non-entity Account Receivable and CBP's Ability to Effectively Monitor Collection Actions			J	
CBP	10-05	ACS Deficiency over the Accumulation of Claims Against a Drawback Bond				10-01
CBP	10-06	<i>Number not used</i>	Not applicable			
CBP	10-07	Improper Control Design of "Failed Disbursements Report"				10-02
CBP	10-08	Lack of Controls over the Timely Processing of Goods and Services Received				10-03
CBP	10-09	Weakness in CBP's Search for Unrecorded Accounts Payable Used to Support the Accounts Payable Estimate				10-04
CBP	10-10	Weaknesses in the Monitoring and Review Process over the Completion of Fines, Penalties, and Forfeitures Cases				10-05
CBP	10-11	Weakness in the Review of Weekly/Monthly Entry Edit Reports				10-06
CBP	10-12	Weaknesses in CBP's Processes Related to Asset Additions and Classification of PP&E Related Transactions	D			
CBP	10-13	Lack of Implementation of Controls over Determining Capital Leases				10-07
CBP	10-14	Deficiencies in the In-Bond Process		H		
CBP	10-15	Weaknesses in CBP's Processes Related to Asset Disposals	D			
CBP	10-15b	Weaknesses in CBP's Processes Related to Asset Disposals	D			
CBP	10-16	Insufficient Retention Period for Documents that Support Drawback Claims		H		
CBP	10-17	Lack of Formal Policies Over Review of Importer Self-Assessment Annual Notification Letters				10-08
CBP	10-18	Failure to Complete Supervisory Review of Drawback Claims				10-09
CBP	10-19	Certification of Refund and Drawback Payments				10-10
CBP	10-20	Detection of Excessive Drawback Claims		H		
CBP	10-21	Failure to Review the D28 Alert Report				10-11
CBP	10-22	Weaknesses in CBP's Controls Over Automated Journal Entries and Misstatement of Liabilities Related to Injured Domestic Injuries				10-12
CBP	10-23	Deficiencies in CBP's Controls Over the Application of Benefits to C-TPAT Partners				10-13
CBP	10-24	Weaknesses in CBP's Process Related to Recording Construction Percentage of Completion Amounts	D			
CBP	10-25	Improper Settlement of Assets, Including Untimely Capitalization of Assets from CIP	D			
CBP	10-25b	Improper Settlement of Assets, Including Untimely Capitalization of Assets from CIP	D			
CBP	10-26	Oversight of Financial Reporting Issues		G		

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Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
CBP	10-27	Intra-departmental Eliminating Journal Entries Related to Operating Expenses Without Sufficient Supporting Documentation				10-14
CBP	10-28	Deficiencies in CBP's Controls Over Calculating the Validity and Collectability of Non-Entity Taxes, Duties and Trade Receivables, Net				10-15
CBP	10-29	Management Oversight of PP&E	D			
CBP	10-30	Weaknesses Identified in the Bonded Warehouse and Foreign Trade Zone Process and Procedures		H		
CBP	10-31	Inadequate Oversight of Trade Compliance Measurement		H		
CBP	10-32	Control Deficiencies Over Manual Journal Entries				10-16
CBP	10-33	Deficiencies in CBP's Seized Inventory Process				10-17
CBP	10-34	Improper Payment of Interest				10-18
CBP	10-35	Insufficient Documentation of Statement on Auditing Standards (SAS) 70 Review				10-19
CBP	10-36	Weaknesses in CBP's Processes Related to Asset Additions and Classification of PP&E Related Transactions	D			
CBP	10-37	<i>Number not used</i>	Not applicable			
CBP	10-38	<i>Number not used</i>	Not applicable			
CBP	10-39	Untimely De-obligation of Undelivered Orders	F			
FEMA	10-01	Internal Control Deficiencies over Claims Paid at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program (NFIP)				10-01
FEMA	10-01a	Internal Control Deficiencies over Claims Paid at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program (NFIP)				10-01
FEMA	10-02	Inaccuracy of Claims' Loss Reserves at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program (NFIP)				10-02
FEMA	10-02a	Inaccuracy of Claims' Loss Reserves at Selected Write Your Own Insurance Companies that Participate in FEMA's National Flood Insurance Program (NFIP)				10-02
FEMA	10-03	Lack of Formal Policies and Procedures in Various Areas		G		
FEMA	10-04	Non-Compliance with 5 CFR Part 2638 and 5 CFR Part 2638 Related to Ethical Requirements		G		
FEMA	10-05	Internal Control Deficiencies Identified Over Premiums Written at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program				10-03
FEMA	10-05a	Internal Control Deficiencies Identified Over Premiums Written at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program				10-03
FEMA	10-06	Deficiencies in the Budget Execution Report Preparation Process				10-04
FEMA	10-07	Deficiencies in Development and Application of Policies Related to the Non-Grant, Non-Mission Assignment, Non-System-Generated Accounts Payable Accrual				10-05

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Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
FEMA	10-08	Control Deficiencies and Underlying Data Deficiencies Related to the Non-Grant, Non-Mission Assignment, Non-System-Generated Accounts Payable Accrual				10-06
FEMA	10-09	Deficiencies in the Preparation and Review of the Government Accountability Office (GAO) Financial Audit Manual (FAM) 2010 – Checklist for Federal Accounting	A			
FEMA	10-10	Inherited Problems in Legacy Grants & Training's (G&T's) Integrated Financial Management Information System (IFMIS) and Other Issues Noted in the Transaction Information Repository System (TIER) to IFMIS Reconciliation as of June 30, 2010	A			
FEMA	10-11	Control Deficiencies Noted in the Financial Reporting Environment as of 3/31/10	A			
FEMA	10-12	Insufficient Office of the Chief Financial Officer (OCFO) Review of FEMA's Legal Liability and Related Disclosure				10-07
FEMA	10-13	Deficiencies Identified in the Integrated Financial Management System (IFMIS) Chart of Accounts and Transaction Codes			J	
FEMA	10-14	Ineffective Controls Over Processing Obligations	F			
FEMA	10-15	Deficiencies in Development of Mission Assignment Policies and Procedures				10-08
FEMA	10-16	Ineffective Controls Over Processing and Monitoring Mission Assignments	F			
FEMA	10-17	Improvements Needed in Review and Recording of Year-End Mission Assignment Accrual				10-09
FEMA	10-18	Financial Monitoring of Grants by the Former Office of Grants and Training (G&T)	E			
FEMA	10-19	Ineffective Controls Over Grants Management	E			
FEMA	10-20	Lack of Certain Documentation Related to Compliance with the Improper Payments Information Act of 2002, as amended				10-10
FEMA	10-21	Budgetary Accounting Issues Identified Journal Voucher (JV) Testwork through June 30, 2010	F			
FEMA	10-21a	Budgetary Accounting Issues Identified Journal Voucher (JV) Testwork from July 1, 2010 through September 30, 2010	F			
FEMA	10-22	Inability to Link Systems to Significant Grant Programs				10-11
FEMA	10-23	Failure to Identify and Assess Accounting Policies / Practices Not In Accordance with Generally Accepted Accounting Principles (Non-GAAP)				10-12
FEMA	10-24	Improvements Needed in Management's Review of Grant Data and Automated Reconciliations in Grant Accrual Models	A			
FEMA	10-25	Deficiency Identified Related to the Preparation and Review of the Retrospective Reserve Analysis				10-13
FEMA	10-26	Issues Deficiencies Identified in Journal Voucher Testwork through June 30, 2010	A			
FEMA	10-26a	Issues Deficiencies Identified in Journal Voucher Testwork from July 1, 2010 through September 30, 2010	A			
FEMA	10-27	Monitoring of Audit Findings in Accordance with Office of Management and Budget (OMB) Circular No. A-133 and No. A-50, and Related Compliance Matters	E		K	
FEMA	10-28	Lack of Supporting Documentation for Prompt Payment				10-14

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Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
		Sample Item				
FEMA	10-29	Deficiency in the Methodology Used to Calculate the Non-Current Portion of the Insurance Liability Estimate				10-15
FEMA	10-30	Failure to Close Assistance to Firefighter Grants Timely				10-16
FEMA	10-31	Deficiencies over the National Flood Insurance Program (NFIP) Treasury Information Executive Repository (TIER) Journal Voucher (JV) Adjustments	A			
FEMA	10-32	Untimely De-Obligation of UDOs and Accounting for Public Assistance Grant Arbitration Cases in FY 2010	F			
FLETC	10-01	Management Review of Purchase Card Statements				10-01
FLETC	10-02	FFMIA Compliance			J	
FLETC	10-03	Accounts Payable Estimation Methodology & True-Up Analysis				10-02
USCIS	10-01	Inadequate and/or Inconsistent Supervisor Review of Payroll Transactions				10-01
USCIS	10-02	Inadequate and/or Inconsistent Supervisor Review of General Journal Entries				10-02
USCIS	10-03	Improper Expensing of Capitalized Equipment				10-03
USCIS	10-04	Deficiencies in the Deferred Revenue Quality Assurance Process and the Internal Control Environment				10-04
USCIS	10-05	Inadequate Supervisory Review of the Intra-Departmental Eliminations Reconciliation				10-05
USCIS	10-06	Leasehold Improvement Costs Were Not Capitalized Timely				10-06
USCIS	10-07	Inadequate and/or Inconsistent Supervisor Review of Personnel Actions				10-07
ICE	10-01	Inadequate Internal Controls Over Tracking Leasehold Improvement Projects				10-01
ICE	10-02	Inadequate Internal Controls Over Tracking Internal-Use Software Projects				10-02
ICE	10-03	Ineffective Internal Controls Over Leave Audit Process				10-03
ICE	10-04	Ineffective Review Controls Over the Preparation and Submission of the Contingent Legal Liabilities Documentation				10-04
ICE	10-05	Ineffective Internal Controls Over SF-224 Process				10-05
ICE	10-06	Immigration Bonds were not Deposited in a Timely Manner				10-06
ICE	10-07	Untimely De-Obligation of Undelivered Orders Balances				10-07
ICE	10-08	Subject to Availability of Funding Agreements not Obligated in FFMS at Outset of Agreement				10-08
ICE	10-09	ICE Does Not Accrue Capitalized Costs Incurred at Year-End for Software and Leasehold Improvement Projects				10-09
ICE	10-10	Accounts Payable Estimate Methodology Does Not Include a Comparison to Actual Amounts				10-10
ICE	10-11	The Federal Financial Management System (FFMS) has the Ability to Make Duplicate Payments				10-11

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Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
ICE	10-12	IPAC Payments are Being Made Prior to an Obligation Being Set Up in FFMS				10-12
ICE	10-13	ICE was Unable to Support Undelivered Orders Balances in a Timely Manner at Year-End				10-13
ICE	10-14	FFMIA Compliance			J	
MGT	10-01	Inadequate Internal Controls over Property, Plant and Equipment (PP&E)				10-01
NPPD	10-01	Inadequate Internal Controls Over Reporting of Internal-Use Software Projects				10-01
NPPD	10-02	Inconsistent Application of Property Capitalization Thresholds at NPPD				10-02
NPPD	10-03	Untimely De-Obligation of Undelivered Orders				10-03
NPPD	10-04	Potential Antideficiency Act (ADA) Violation			M	
NPPD	10-05	Subject to Availability of Funding Agreements Not Obligated in FFMS at Outset of Agreement				10-04
NPPD	10-06	Obligations Are Not Recorded in FFMS in a Timely Manner				10-05
NPPD	10-07	Payment Processed Without Contracting Officer Certification				10-06
S&T	10-01	Inadequate Internal Controls Over Reporting of Construction in Progress (CIP) and Buildings				10-01
S&T	10-02	Insufficient Internal Controls to Ensure Timely Reporting of Internal Use Software in Development and Personal Property				10-02
TSA	10-01	Warehouse Inventory System and Procedures				10-01
TSA	10-02	Compliance with Human Resources Related Laws				10-02
TSA	10-03	Accrued Payroll Controls				10-03
TSA	10-04	Accounts Receivable Controls				10-04
TSA	10-05	Ineffective Controls at the Dallas Warehouse	D			
TSA	10-06	Noncompliance with Debt Collection Improvement Act of 1996				10-05
TSA	10-07	Policies and Procedures over the PP&E Process	D			
TSA	10-08	Ineffective Controls Over the Time and Attendance Process				10-06
TSA	10-09	PP&E Site Visits	D			
TSA	10-10	Fund Balance with Treasury Controls				10-07
TSA	10-11	Lack of Policies and Procedures Over Internal Use Software	D			
TSA	10-12	Accounts Payable Process				10-08
TSA	10-13	Incorrect Trading Partner Codes	A			
TSA	10-14	Accounting for Other Direct Costs Incurred in FY 2009 and Prior	D			
TSA	10-15	Untimely Update of Asset Transfers				10-09

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Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
TSA	10-16	Undelivered Orders Documentation				10-10
TSA	10-17	Entity-Level Controls	A, D			
TSA	10-18	<i>Number not used</i>	Not applicable			
TSA	10-19	Reporting PP&E	D			
TSA	10-20	Financial Reporting Deficiencies	A			
TSA	10-21	Non-Compliance with the Federal Financial Management Improvement Act of 1996			J	
TSA	10-22	<i>Number not used</i>	Not applicable			
TSA	10-23	Grant Monitoring and Compliance with OMB Circular No. A-133, Audit of Sales, Local Governments and Nonprofit Organizations				10-11
TSA	10-24	<i>Number not used</i>	Not applicable			
TSA	10-25	<i>Number not used</i>	Not applicable			
TSA	10-26	Review of Journal Vouchers				10-12
TSA	10-27	Review of Service Organizations' Internal Controls				10-13
TSA	10-28	<i>Number not used</i>	Not applicable			
TSA	10-29	Accounts Payable Balance				10-14
TSA	10-30	Lease Accounting and Disclosure				10-15
USCG	10-01	Heritage Assets	D			
USCG	10-02	Purchase Requests / Commitments	F			
USCG	10-03	Statement of Net Cost	A			
USCG	10-04	Contracting Officer Warrant Authority	B			
USCG	10-05	Environmental Liabilities	E			
USCG	10-06	PP&E Non-Construction in Process (CIP) Assets	B, D			
USCG	10-07	Vessels and Small Boats Useful Lives	D			
USCG	10-08	Federal Financial Management Improvement Act (FFMIA)	B		J	
USCG	10-09	Cumulative Results of Operations (CRO)	A			
USCG	10-10	Financial Disclosure Reports		G		
USCG	10-11	PP&E Asset Records	D			
USCG	10-12	Legal Liability Reporting				10-01
USCG	10-13	Actuarial Post Employment Travel Liability	E			
USCG	10-14	Property, Plant & Equipment: Repairables	D			
USCG	10-15	Intragovernmental Transactions and Balances	A, B			
USCG	10-16	Property, Plant and Equipment: 4 th Quarter Site Visit Observations	D			
USCG	10-17	PP&E Construction in Progress	D			
USCG	10-18	Financial Management Oversight	A, B, D	G		

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Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
USCG	10-19	Permanent Change of Station – Separation / Retirement Presentation	A			
USCG	10-20	FBWT – Reconciliations	B, C			
USCG	10-21	Suspense Accounts	B, C			
USCG	10-22	Accrued Payroll and Unfunded Leave Accrual (Military)				10-02
USCG	10-23	Operating Materials and Supplies				10-03
USCG	10-24	Accrued Payroll and Unfunded Leave Accrual	E			
USCG	10-25	FY 2010 Actuarial Liabilities Restatement	E			
USCG	10-26	Accounts Payable Accrual	E			
USCG	10-27	Undelivered Orders	F			
USCG	10-28	Financial Reporting Process	A			
USCG	10-29	Federal Managers' Financial Integrity Act			J	
USCG	10-30	Actuarial Medical Liabilities	E			
USCG	10-31	Accounts Receivable	A			
USCG	10-32	FBwT and Unexpended Appropriations	C			
USSS	10-01	Adjustments in the USSS Counterfeit Footnote Support Schedule				10-01
USSS	10-02	GAO Report Findings			M	
CONS	10-01	Tracking System for Ethics Training, Public Financial Disclosures, and Confidential Reports				10-01
CONS	10-02	Preparation of the Departmental Interim Legal Letter				10-02
CONS	10-03	Audited Financial Statements			J, L	
CONS	10-04	<i>Number not used</i>	Not applicable			
CONS	10-05	Lack of SAS 70 Rollforward Guidance				10-03
CONS	10-06	Compliance with OMB Circular A-136			N	
CONS	10-07	Statement of Net Cost (SNC) Methodologies and IT Systems Functionality			J	
CONS	10-08	Discrepancies Exist Between DHS Guidance and the TIER Analytical Report				10-04
CONS	10-09	<i>Number not used</i>	Not applicable			
CONS	10-10	Non-compliance with OMB Circular A-50, <i>Audit Followup</i>			I	
CONS	10-11	Preparation and Review of the Special-Purpose Financial Statements and Notes	Note 1			

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¹Disposition Legend:

IAR	Independent Auditors' Report dated November 12, 2010
FMC	Financial Management Comment
MW	Contributed to a Material Weakness at the Department level when combined with the results of all other components
SD	Contributed to a Significant Deficiency at the Department level when combined with the results of all other components
NC	Contributed to Noncompliance with laws, regulations, contracts, and grant agreements at the Department level when combined with the results of all other components
NFR	Notice of Finding and Recommendation

Cross-reference to the applicable sections of the IAR:

A	Financial Management and Reporting
B	Information Technology Controls and System Functionality
C	Fund Balance with Treasury
D	Property, Plant, and Equipment
E	Actuarial and Other Liabilities
F	Budgetary Accounting
G	Other Entity-Level Controls
H	Custodial Revenue and Drawback
I	<i>Federal Managers' Financial Integrity Act of 1982 (FMFIA)</i> , and Laws and Regulations Supporting OMB Circular No. A-50, <i>Audit Followup</i> , as revised
J	<i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i>
K	<i>Single Audit Act Amendments of 1996</i>
L	<i>Chief Financial Officers Act of 1990 (CFO Act)</i>
M	<i>Antideficiency Act</i> , as amended (ADA)
N	<i>Government Performance and Results Act of 1993 (GPRA)</i>

Note 1: This finding was reporting in the Independent Auditors' Report on the Special-Purpose Financial Statements

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Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2010 NFR No.)
CBP	09-01	Verification of CPL and Certification of Payments		CBP 10-19
CBP	09-02	Detection of Excessive Drawback Claims		CBP 10-20
CBP	09-03	Drawback Documentation Retention Period		CBP 10-16
CBP	09-04	ACS Deficiency over the Accumulation of Claims against a Drawback Bond		CBP 10-05
CBP	09-05	Deficiencies in the In-bond Process		CBP 10-14
CBP	09-06	System Integration and Compliance with the USSGL at the Transaction Level		CBP 10-02
CBP	09-07	ACS Deficiencies over Non-entity Account Receivable and CBP's Ability to Effectively Monitor Collection Actions		CBP 10-04
CBP	09-08	ACS Limitations – Review of Prior Related Drawback Claims and Selectivity for Underlying Consumption Entries		CBP 10-03
CBP	09-09	<i>Number not used</i>	Not applicable	
CBP	09-10	<i>Number not used</i>	Not applicable	
CBP	09-11	<i>Number not used</i>	Not applicable	
CBP	09-12	Failure to complete Supervisory Review		CBP 10-18
CBP	09-13	<i>Number not used</i>	Not applicable	
CBP	09-14	<i>Number not used</i>	Not applicable	
CBP	09-15	Weaknesses Identified in the Bonded Warehouse and Foreign Trade Zone Processes and Procedures		CBP 10-30
CBP	09-16	Weaknesses in the Requirements Related to the Monitoring, Review, and Oversight Relating to the Efficiency of Completion of FP&F Cases		CBP 10-10
CBP	09-17	Inadequate Oversight of Entry Summary Compliance Measurement		CBP 10-31
CBP	09-18	Weakness in the Review of Weekly/Monthly Entry Edit Reports		CBP 10-11
CBP	09-19	<i>Number not used</i>	Not applicable	
CBP	09-20	<i>Number not used</i>	Not applicable	
CBP	09-21	<i>Number not used</i>	Not applicable	
CBP	09-22	<i>Number not used</i>	Not applicable	
CBP	09-23	Untimely De-obligation of Inactive Obligations (UDOs)		CBP 10-01, 10-39
CBP	09-24	Improper Settlement of Assets, Including Untimely Capitalization of Assets from CIP		CBP 10-25, 10-25b
CBP	09-25	<i>Number not used</i>	Not applicable	
CBP	09-26	<i>Number not used</i>	Not applicable	
CBP	09-27	<i>Number not used</i>	Not applicable	
CBP	09-28	Miscellaneous Seized Inventory Findings		CBP 10-33
CBP	09-29	Lack of Formal Policies Over Review of Importer Self-Assessment Annual Notification Letters		CBP 10-17
CBP	09-30	Weakness in CBP's Processes Related to Asset Additions		CBP 10-12, 10-36
CBP	09-31	<i>Number not used</i>	Not applicable	
CBP	09-32	<i>Number not used</i>	Not applicable	
CBP	09-33	Weaknesses in Recording FM&E TI CIP		CBP 10-24

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Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2010 NFR No.)
CBP	09-34	Misstatement of the 3/31/09 SBI CIP	X	
CBP	09-35	Controls over Capital Leases		CBP 10-13
CBP	09-36	Misstatement of the 3/31/09 Inventory and Related Property, Net	X	
CBP	09-37	Lack of Controls over the Timely Processing of Goods and Services Received		CBP 10-08
CBP	09-38	Weakness in CBP's Management Review of the Financial Statements	X	
CBP	09-39	Weaknesses in CBP's Assessment and Identification of New/Relevant Financial Reporting Issues		CBP 10-26
CBP	09-40	Management Oversight of PP&E		CBP 10-29
CBP	09-41	Findings Related to the Accounting for the Secure Border Initiative (SBI) Net Program	X	
CBP	09-42	Weaknesses in CBP's Processes Related to Asset Disposals/Retirements		CBP 10-15, 10-10b
CBP	09-43	Weaknesses in CBP's Classification of PP&E Related Transactions		CBP 10-12, 10-36
CBP	09-44	Weakness in CBP's Management Review of Contracts	X	
CBP	09-45	Deficiencies in CBP's Controls Over Calculating the Validity and Collectability of Non-Entity Taxes, Duties, and Trade Receivables, Net		CBP 10-28
CBP	09-46	Deficiencies in CBP's Controls Over the Application of Benefits to C-TPAT Partners		CBP 10-23
CBP	09-47	Weaknesses in accounting for Imputed Financing	X	
FEMA	09-01	<i>Number not used</i>		Not applicable
FEMA	09-02	Financial Monitoring of Grants by the Former Office of Grants & Training (G&T)		FEMA 10-18
FEMA	09-03	<i>Number not used</i>		Not applicable
FEMA	09-04	Non-Grant Related Unliquidated Obligations (ULOs) within the Former G&T Not Adequately Supported and De-obligated Timely		FEMA 10-32
FEMA	09-05	<i>Number not used</i>		Not applicable
FEMA	09-06	<i>Number not used</i>		Not applicable
FEMA	09-07	Lack of Current Antideficiency Act Policies and Procedures	X	
FEMA	09-08	Ineffective Controls over Processing Mission Assignment Payments		FEMA 10-16
FEMA	09-09	Untimely De-obligation of MAs and Delegations of Authority, and Control Deficiencies Related to Quarterly Review of MAs		Combined into FEMA 10-32
FEMA	09-10	<i>Number not used</i>		Not applicable
FEMA	09-11	<i>Number not used</i>		Not applicable
FEMA	09-12	Lack of Supporting Documentation for the Reporting of Internal Use Software and Internal Use Software In Development	X	
FEMA	09-13	Non-compliance with Ethics Requirements		FEMA 10-04
FEMA	09-14	<i>Number not used</i>		Not applicable

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Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2010 NFR No.)
FEMA	09-15	<i>Number not used</i>		Not applicable
FEMA	09-16	<i>Number not used</i>		Not applicable
FEMA	09-17	Unavailability of Supporting Documentation for Certain Entity Level Controls	X	
FEMA	09-18	<i>Number not used</i>		Not applicable
FEMA	09-19	Lack of Formal Policies and Procedures in Various Areas		FEMA 10-03
FEMA	09-20	Monitoring of Audit Findings in Accordance with OMB Circular Nos. A-133 and A-50, and Related Compliance Matters		FEMA 10-27
FEMA	09-21	<i>Number not used</i>		Not applicable
FEMA	09-22	<i>Number not used</i>		Not applicable
FEMA	09-23	<i>Number not used</i>		Not applicable
FEMA	09-24	<i>Number not used</i>		Not applicable
FEMA	09-25	<i>Number not used</i>		Not applicable
FEMA	09-26	<i>Number not used</i>		Not applicable
FEMA	09-27	<i>Number not used</i>		Not applicable
FEMA	09-28	Temporary Adjustments of Fund Balance with Treasury Reconciling Differences	X	
FEMA	09-29	<i>Number not used</i>		Not applicable
FEMA	09-30	<i>Number not used</i>		Not applicable
FEMA	09-31	<i>Number not used</i>		Not applicable
FEMA	09-32	Inherited Problems in Legacy Grants & Training Integrated Financial Management Information System (IFMIS) and Other Issues Noted In the IFMIS to Transaction Information Repository System (TIER) Reconciliations		FEMA 10-10
FEMA	09-33	<i>Number not used</i>		Not applicable
FEMA	09-34	<i>Number not used</i>		Not applicable
FEMA	09-35	<i>Number not used</i>		Not applicable
FEMA	09-36	Internal Control Deficiencies over Claims Paid at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program		FEMA 10-01, 10-01a
FEMA	09-37	Inaccuracy of Claims' Loss Reserves at Selected WYO Insurance Companies that Participate in FEMA's National Flood Insurance Program		FEMA 10-02, 10-02a
FEMA	09-38	<i>Number not used</i>		Not applicable
FEMA	09-39	Insufficient FEMA Oversight of the NFIP Service Provider's Methodology Used to Calculate Estimates Reported in the FEMA Financial Statements	X	
FEMA	09-40	<i>Number not used</i>		Not applicable
FEMA	09-41	Deficiencies in the Submit for Rate Program and Claims Reinspection Program	X	
FEMA	09-42	Lack of Consistent Policies and Procedures Over and Timely Documentation of the Initial Response Resources Inventory (IRR) Reconciliation Process	X	
FEMA	09-43	Lack of Consistent Policies and Procedures Involving the Monthly IRR Inventory Rollforward Process	X	

Department of Homeland Security
 Status of Prior Year NFRs
 September 30, 2010

Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2010 NFR No.)
FEMA	09-44	Insufficient Resources in the Risk Management & Compliance Branch	X	
FEMA	09-45	Monitoring and Communication of Significant Financial-Related Matters in the NFIP	X	
FEMA	09-46	<i>Number not used</i>		Not applicable
FEMA	09-47	<i>Number not used</i>		Not applicable
FEMA	09-48	<i>Number not used</i>		Not applicable
FEMA	09-49	<i>Number not used</i>		Not applicable
FEMA	09-50	Improvements Needed in Review and Recording of Year-end Mission Assignment Accrual		FEMA 10-17
FEMA	09-51	Internal Control Deficiencies over the NFIP Restricted Bank Account Reconciliations at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program	X	
FEMA	09-52	Issues identified in Journal Voucher Testwork Relating to DHS Transaction Information Executive Repository (TIER) File Adjustments and IFMIS Abnormal Balances		FEMA 10-26, 10-26a
FEMA	09-53	Internal Control Deficiencies over NFIP TIER JV Adjustments		FEMA 10-31
FEMA	09-54	Deficiencies in Development and Application of Policy and Lack of Controls Related to the Non-Grant, Non-System-Generated Accounts Payable Accrual		FEMA 10-07
FEMA	09-55	Deficiencies in Development and Application of Mission Assignments Policies		FEMA 10-15
FEMA	09-56	Ineffective Review Controls over the Accounts Receivable Process	X	
FEMA	09-57	Lack of Supporting Documentation for Disaster Fund (Fund 6) UDOs		Combined into FEMA 10-32
FEMA	09-58	Lack of Supporting Documentation for Non-Fund 6 UDOs		Combined into FEMA 10-32
FEMA	09-59	Improvements Needed in Management's Review of Grant Data and Automated Reconciliations in Grant Accrual Models		FEMA 10-24
FEMA	09-60	Improper Accounting for Budgetary Entries in Treasury Appropriation Fund Symbol (TAFS) 709/00561	X	
FLETC	09-01	<i>Number not used</i>		Not applicable
FLETC	09-02	<i>Number not used</i>		Not applicable
FLETC	09-03	<i>Number not used</i>		Not applicable
FLETC	09-04	<i>Number not used</i>		Not applicable
FLETC	09-05	<i>Number not used</i>		Not applicable
FLETC	09-06	<i>Number not used</i>		Not applicable
FLETC	09-07	<i>Number not used</i>		Not applicable
FLETC	09-08	<i>Number not used</i>		Not applicable
FLETC	09-09	<i>Number not used</i>		Not applicable
FLETC	09-10	<i>Number not used</i>		Not applicable
FLETC	09-11	<i>Number not used</i>		Not applicable

Department of Homeland Security
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 September 30, 2010

Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2010 NFR No.)
FLETC	09-12	<i>Number not used</i>		Not applicable
FLETC	09-13	<i>Number not used</i>		Not applicable
FLETC	09-14	<i>Number not used</i>		Not applicable
FLETC	09-15	<i>Number not used</i>		Not applicable
FLETC	09-16	Contract Review Process of Expenses	X	
FLETC	09-17	<i>Number not used</i>		Not applicable
FLETC	09-18	<i>Number not used</i>		Not applicable
FLETC	09-19	<i>Number not used</i>		Not applicable
FLETC	09-20	FFMIA Non-compliance		FLETC-10-02
FLETC	09-21	<i>Number not used</i>		Not applicable
FLETC	09-22	<i>Number not used</i>		Not applicable
FLETC	09-23	Untimely Capitalization of PP&E	X	
FLETC	09-24	<i>Number not used</i>		Not applicable
FLETC	09-25	<i>Number not used</i>		Not applicable
FLETC	09-26	FMFIA Noncompliance	X	
FLETC	09-27	Budgetary Controls over Upward/Downward Adjustments	X	
FLETC	09-28	Improper Expensing and Capitalization of CIP and PP&E costs	X	
FLETC	09-29	Management Review of the Billing Process	X	
FLETC	09-30	Management Review of the Purchase Card Statements		FLETC 10-01
FLETC	09-31	Accounts Payable Estimation Methodology		FLETC 10-03
FLETC	09-32	Untimely Referral of Receivables to Treasury	X	
FLETC	09-33	Budgetary Controls over Upward/Downward Adjustments – Untimely De-obligations	X	
FLETC	09-34	Controls over Financial Reporting	X	
FLETC	09-35	Capital Leases	X	
USCIS	09-01	<i>Number not used</i>		Not applicable
USCIS	09-02	<i>Number not used</i>		Not applicable
USCIS	09-03	<i>Number not used</i>		Not applicable
USCIS	09-04	Untimely Update of Adjudication Status within CLAIMS 3 and CLAIMS 4	X	
USCIS	09-05	Applications Included in Deferred Revenue at Incorrect Fee Amounts	X	
USCIS	09-06	Obligations are Not Being Recorded in FFMS in a Timely Manner	X	
USCIS	09-07	Discrepancies with the Leave Balances Between the NFC Records and STAR Reports are not Being Researched and Resolved Timely	X	
USCIS	09-08	<i>Number not used</i>		Not applicable
USCIS	09-09	<i>Number not used</i>		Not applicable
USCIS	09-10	<i>Number not used</i>		Not applicable

Department of Homeland Security
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 September 30, 2010

Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2010 NFR No.)
USCIS	09-11	<i>Number not used</i>		Not applicable
USCIS	09-12	Inadequate Internal Controls over the Reporting of Fixed Assets	X	
USCIS	09-13	Deficiencies in the Deferred Revenue QA Process and the Internal Control Environment		USCIS 10-04
USCIS	09-14	Inadequate and/or Inconsistent Supervisor Review of Payroll Transactions		USCIS 10-01
USCIS	09-15	<i>Number not used</i>		Not applicable
USCIS	09-16	Issues Involving the Completeness, Existence and Accuracy of Capitalized Equipment	X	
USCIS	09-17	USCIS is Improperly Including EOIR/ 'Relief From Deportation' Applications in the Deferred Revenue Query Results	X	
USCIS	09-18	Compliance with OMB Guidance for TSP Deductions	X	
USCIS	09-19	Accounts Payable Transactions are Not Being Recorded in FFMS	X	
USCIS	09-20	Inadequate and/or Inconsistent Supervisor Review of Personnel Actions		USCIS 10-07
USCIS	09-21	Aged Obligations are not timely reviewed to ensure the validity and accuracy of the UDO balance	X	
USCIS	09-22	Insufficient support for the determination of parking withholdings	X	
USCIS	09-23	Disbursements are being charged to an Improper sub-object class	X	
ICE	09-01	Untimely Execution of Reimbursable Agreements and SWAs with Other Governmental Entities when ICE is Performing the Services	X	
ICE	09-02	<i>Number not used</i>		Not applicable
ICE	09-03	<i>Number not used</i>		Not applicable
ICE	09-04	Obligations are Not Being Recorded in FFMS in a Timely Manner	X	
ICE	09-05	<i>Number not used</i>		Not applicable
ICE	09-06	Discrepancies with the Leave Balances Between the NFC Records and WebTA Reports are Not Being Researched and Resolved Timely		ICE 10-03
ICE	09-07	Lack of Procedures to Verify the Receipt and Acceptance of Goods or Services for IPAC Transactions	X	
ICE	09-08	<i>Number not used</i>		Not applicable
ICE	09-09	<i>Number not used</i>		Not applicable
ICE	09-10	<i>Number not used</i>		Not applicable
ICE	09-11	<i>Number not used</i>		Not applicable
ICE	09-12	<i>Number not used</i>		Not applicable
ICE	09-13	<i>Number not used</i>		Not applicable
ICE	09-14	<i>Number not used</i>		Not applicable
ICE	09-15	<i>Number not used</i>		Not applicable
ICE	09-16	<i>Number not used</i>		Not applicable

Department of Homeland Security
 Status of Prior Year NFRs
 September 30, 2010

Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2010 NFR No.)
ICE	09-17	<i>Number not used</i>		Not applicable
ICE	09-18	Inadequacy/Ineffectiveness of Internal Controls over the Preparation and Review of the Pending/Threatened Litigation Against ICE		ICE 10-04
ICE	09-19	<i>Number not used</i>		Not applicable
ICE	09-20	Accounts Payable Transactions are Not Being Recorded in FFMS Timely	X	
ICE	09-21	Aged Obligations are Not Timely Reviewed to Ensure the Validity and Accuracy of the UDO Balance		ICE 10-07
ICE	09-22	Inadequate and/or Inconsistent Review of Personnel Actions	X	
ICE	09-23	Untimely Resolution of Differences Identified on the Statement of Differences	X	
ICE	09-24	Noncompliance with Human Resources Laws and Regulations	X	
ICE	09-25	Duplicate Payment Transactions were Processed in the Federal Financial Management System (FFMS)		ICE 10-11
ICE	09-26	Processing of Improperly Authorized Reclassification Requests	X	
ICE	09-27	Certain DRO Disbursements Should Have Been Allocated to Other Funding Sources	X	
ICE	09-28	Noncompliance with the USSGL – Capitalization Costs are Not Tracked on a Transaction Level	X	
ICE	09-29	<i>Number not used</i>		Not applicable
ICE	09-30	<i>Number not used</i>		Not applicable
ICE	09-31	Disbursements are Being Charged to an Improper Sub-Object Class (SOC)	X	
ICE	09-32	IPAC Payments are Being Made Prior to an Obligation Being Set Up in FFMS		ICE 10-12
ICE	09-33	<i>Number not used</i>		Not applicable
ICE	09-34	Insufficient Internal Controls over IUS Recorded in Previous Years		ICE 10-02
ICE	09-35	Lack of Supporting Documentation for the Distribution of the SF-132/SF-133 Reconciliations to the Budget Offices	X	
MGT	09-01	Obligations are not Being Keyed into FFMS in a Timely Manner	X	
MGT	09-02	Inadequate Internal Controls over PP&E		MGT 10-01
MGT	09-03	<i>Number not used</i>		Not applicable
MGT	09-04	Items in the Suspense Account are Not Being Researched and Resolved in a Timely Manner as Defined by Treasury	X	
MGT	09-05	Aged Obligations are Not Timely Reviewed to Ensure the Validity and Accuracy of the UDO Balance	X	
MGT	09-06	Disbursements are Being Charged to an Improper Sub-Object Class (SOC)	X	
MGT	09-07	Accounts Payable Transactions are Not Being Recorded in FFMS Timely	X	
NPPD	09-01	Potential Violation of the Antideficiency Act (ADA)		NPPD 10-04

Department of Homeland Security
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 September 30, 2010

Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2010 NFR No.)
NPPD	09-02	Obligations are not Being Keyed into FFMS in a Timely Manner		NPPD 10-06
NPPD	09-03	Failure to Provide Reasonable Assurance that Internal Controls are Achieving Their Intended Objectives	X	
NPPD	09-04	Items in the Suspense Account are not Being Researched and Resolved in a Timely Manner as Defined by Treasury	X	
NPPD	09-05	Aged Obligations are Not Timely Reviewed to Ensure the Validity and Accuracy of the UDO Balance		NPPD 10-03
NPPD	09-06	SES Failed to File Financial Disclosure Forms as Required	X	
NPPD	09-07	Accounts Payable Transactions are Not Being Recorded in FFMS Timely	X	
NPPD	09-08	Insufficient Internal Controls over PP&E		NPPD 10-01
OHA	09-01	Accounting for Bioshield Funds and Management Review	X	
S&T	09-01	Obligations are Not Recorded in FFMS Timely	X	
S&T	09-02	<i>Number not used</i>		Not applicable
S&T	09-03	<i>Number not used</i>		Not applicable
S&T	09-04	<i>Number not used</i>		Not applicable
S&T	09-05	Aged Obligations are Not Timely Reviewed to Ensure the Validity and Accuracy of the UDO Balance	X	
S&T	09-06	SES Failed to File Financial Disclosure Forms as Required	X	
S&T	09-07	Accounts Payable Transactions are Not Being Recorded in FFMS Timely	X	
TSA	09-01	<i>Number not used</i>		Not applicable
TSA	09-02	<i>Number not used</i>		Not applicable
TSA	09-03	<i>Number not used</i>		Not applicable
TSA	09-04	Incorrect Trading Partner Codes		TSA 10-13
TSA	09-05	Undelivered Orders Documentation		TSA 10-16
TSA	09-06	<i>Number not used</i>		Not applicable
TSA	09-07	<i>Number not used</i>		Not applicable
TSA	09-08	<i>Number not used</i>		Not applicable
TSA	09-09	Financial Reporting Deficiencies		TSA 10-20
TSA	09-10	Required Supplementary Stewardship Information	X	
TSA	09-11	Non-Compliance with Debt Collection Improvement Act (DCIA) of 1996		TSA 10-06
TSA	09-12	<i>Number not used</i>		Not applicable
TSA	09-13	Noncompliance with FFMIA		TSA 10-21
TSA	09-14	Noncompliance with FMFIA	X	
TSA	09-15	Grant Monitoring and Compliance with OMB Circular No. A-133, Audit of Sales, Local Governments, and Nonprofit Organizations		TSA 10-23

Department of Homeland Security
 Status of Prior Year NFRs
 September 30, 2010

Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2010 NFR No.)
TSA	09-16	Noncompliance with Human Resources Related Laws		TSA 10-02
TSA	09-17	<i>Number not used</i>	Not applicable	
TSA	09-18	Ineffectiveness of Controls over the Time & Attendance Process		TSA 10-08
TSA	09-19	Policies and Procedures to Ensure Compliance with GAAP	X	
TSA	09-20	<i>Number not used</i>	Not applicable	
TSA	09-21	Untimely Update of Asset Transfers		TSA 10-15
TSA	09-22	Warehouse Property Impairment	X	
TSA	09-23	<i>Number not used</i>	Not applicable	
TSA	09-24	Review of Journal Vouchers		TSA 10-26
TSA	09-25	Review of Service Organizations' Internal Controls		TSA 10-27
TSA	09-26	Incorrect Classification of Obligations as Fed or Non-Fed	X	
TSA	09-27	Accounts Payable Balance		TSA 10-29
TSA	09-28	Reporting PP&E		TSA 10-19
TSA	09-29	Entity-Level Controls		TSA 10-17
TSA	09-30	Lease Accounting and Disclosure		TSA 10-30
TSA	09-31	Ineffective Controls at the Dallas Warehouse		TSA 10-05
TSA	09-32	GAO Checklist Review	X	
TSA	09-33	PP&E Site Visits		TSA 10-09
TSA	09-34	Fund Balance with Treasury Controls		TSA 10-10
TSA	09-35	Lack/Ineffectiveness of Controls over the Accounts Receivable Process		TSA 10-04
TSA	09-36	Controls over Payroll Procedures		TSA 10-03
TSA	09-37	Procurement Controls	X	
TSA	09-38	Policies and Procedures over the PP&E Process		TSA 10-07
TSA	09-39	Accounts Payable Controls		TSA 10-12
TSA	09-40	Lack of Policies and Procedures over the Deployment of IUS		TSA 10-11
TSA	09-41	Unavailability of Supporting Documentation	X	
TSA	09-42	Net Position Controls	X	
USCG	09-01	Statement of Net Cost		USCG 10-03
USCG	09-02	Contracting Officer Warrant Authority		USCG 10-04
USCG	09-03	Accounts Payable Accrual		USCG 10-26
USCG	09-04	Purchase Requests/Commitments		USCG 10-02
USCG	09-05	<i>Number not used</i>	Not applicable	
USCG	09-06	Operating Materials and Supplies		USCG 10-23
USCG	09-07	Accrued Payroll and Unfunded Leave Accrual		USCG 10-22, 10-24
USCG	09-08	PP&E Construction In Process (CIP)		USCG 10-17

Department of Homeland Security
 Status of Prior Year NFRs
 September 30, 2010

Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2010 NFR No.)
USCG	09-09	Actuarial Post-Employment Travel Liability		USCG 10-13
USCG	09-10	PP&E Repairables		USCG 10-14
USCG	09-11	<i>Number not used</i>	Not applicable	
USCG	09-12	Actuarial Medical Liability		USCG 10-30
USCG	09-13	Intragovernmental Transactions and Balances		USCG 10-15
USCG	09-14	Financial Disclosure Reports		USCG 10-10
USCG	09-15	Environmental Liability		USCG 10-05
USCG	09-16	<i>Number not used</i>	Not applicable	
USCG	09-17	Accounts Receivable		USCG 10-31
USCG	09-18	PP&E Asset Records		USCG 10-11
USCG	09-19	Undelivered Orders		USCG 10-27
USCG	09-20	Cumulative Results of Operations		USCG 10-09
USCG	09-21	Federal Financial Management Improvement Act (FFMIA)		USCG 10-08
USCG	09-22	FBwT – Reconciliation / Military and Civilian Payroll Processes		USCG 10-20
USCG	09-23	PP&E Non-Construction In Process (CIP) Assets		USCG 10-06
USCG	09-24	Federal Manager Financial Integrity Act		USCG 10-29
USCG	09-25	Suspense Accounts		USCG 10-21
USCG	09-26	Vessels and Small Boats Useful Lives		USCG 10-07
USCG	09-27	Year-end Pipeline Adjustment		USCG 10-27
USCG	09-28	Legal Liability Reporting		USCG 10-12
USCG	09-29	Financial Management Oversight		USCG 10-18
USCG	09-30	Financial Statement Disclosures	X	
USCG	09-31	Financial Reporting Process		USCG 10-28
USCG	09-32	<i>Number not used</i>	Not applicable	
USCG	09-33	Heritage Assets		USCG 10-01
USCG	09-34	Non-Expenditure Transfer Forms	X	
USSS	09-01	<i>Number not used</i>	Not applicable	
USSS	09-02	<i>Number not used</i>	Not applicable	
USSS	09-03	Lack of USSS Headquarters Review of Monthly Seized Counterfeit Currency Reconciliation		USSS 10-01
CONS	09-01	<i>Number not used</i>	Not applicable	
CONS	09-02	Tracking System for Ethics Training, Public Financial Disclosures, and Confidential Reports		CONS 10-01
CONS	09-03	Audited Financial Statements		CONS 10-03
CONS	09-04	<i>Number not used</i>	Not applicable	
CONS	09-05	<i>Number not used</i>	Not applicable	
CONS	09-06	<i>Number not used</i>	Not applicable	

Department of Homeland Security
Status of Prior Year NFRs
 September 30, 2010

Component	NFR No.	Description	Disposition ¹	
			Closed ²	Repeat (2010 NFR No.)
CONS	09-07	<i>Number not used</i>		Not applicable
CONS	09-08	Review of Component Financial Information	X	
CONS	09-09	<i>Number not used</i>		Not applicable
CONS	09-10	<i>Number not used</i>		Not applicable
CONS	09-11	Lack of Department-wide Policies and Non-Compliance with the Debt Collection Improvement Act of 1996 (DCIA)	X	
CONS	09-12	<i>Number not used</i>		Not applicable
CONS	09-13	Statement of Net Cost (SNC) Methodologies and IT Systems Functionality		CONS 10-07
CONS	09-14	<i>Number not used</i>		Not applicable
CONS	09-15	Preparation of the Departmental Legal Letter		CONS 10-02
CONS	09-16	<i>Number not used</i>		Not applicable
CONS	09-17	<i>Number not used</i>		Not applicable
CONS	09-18	<i>Number not used</i>		Not applicable
CONS	09-19	Non-Compliance with OMB Circular A-50, Audit Followup		CONS 10-10
CONS	09-20	<i>Number not used</i>		Not applicable
CONS	09-21	<i>Number not used</i>		Not applicable
CONS	09-22	<i>Number not used</i>		Not applicable
CONS	09-23	Discrepancies Exist Between DHS Guidance and the TIER Analytical Report		CONS 10-08
CONS	09-24	<i>Number not used</i>		Not applicable
CONS	09-25	Review of FECA Actuarial Liability	X	
CONS	09-26	<i>Number not used</i>		Not applicable
CONS	09-27	Timely Documentation and Review of Intragovernmental Activity and Balances	X	
CONS	09-28	Review of 6/30 AFR	X	
CONS	09-29	Component Monitoring related to Review of GAO 2020 Checklists	X	
CONS	09-30	Compliance with OMB Circular A-136		CONS 10-06
CONS	09-31	Review of JVs and JV log	X	
CONS	09-32	Preparation and Review of the Special-Purpose Financial Statements and Notes		CONS 10-11

¹ KPMG was engaged to perform an audit over the DHS balance sheet and statement of custodial activity as of and for the year ended September 30, 2010, and was not engaged to perform an audit over the statement of net cost, statement of changes in net position, and statement of budgetary resources for the year ended September 30, 2010. In addition, we were engaged to follow up on the status of all active NFRs that supported significant deficiencies reported in KPMG's *Independent Auditors' Report* dated November 13, 2009.

² NFRs were closed either through remediation of the findings or that we were not engaged to follow up on active NFRs that did not support significant deficiencies reported in KPMG's *Independent Auditors' Report* dated November 13, 2009.


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

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



January 31, 2011

MEMORANDUM FOR: Anne Richards
Assistant Inspector General for Audits

FROM: 
Larry J. Bedker
Director, DHS Office of Financial Management

SUBJECT: Draft Management Letter for the FY 2010 DHS Financial
Statements and Internal Control over Financial Reporting
Audit

Thank you for the opportunity to comment on the Draft Management Letter for the FY 2010 DHS Financial Statements and Internal Control over Financial Reporting Audit. We concur with the report's recommendations and remain fully committed to addressing our outstanding financial management challenges. We appreciate your office's contributions and insights, and we look forward to working with you as we implement our corrective actions and the *DHS Financial Accountability Act*.

Report Distribution

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