



Department of Homeland Security Office of Inspector General

U.S. Immigration and Customs Enforcement's Management Letter for FY 2010 DHS Consolidated Financial Statements Audit





Homeland Security

MAR 28 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 U.S. Immigration and Customs Enforcement's Management Letter for FY 2010 DHS Consolidated Financial Statements Audit. It contains observations related to internal control that were not required to be reported in the financial statements 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. KPMG is responsible for the attached management letter dated March 2, 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 observations 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 that reads "Anne L. Richards".

Anne L. Richards
Assistant Inspector General for Audits



KPMG LLP
2001 M Street, NW
Washington, DC 20036

March 2, 2011

Office of Inspector General
U.S. Department of Homeland Security, and
Chief Financial Officer
U.S. Department of Homeland Security U.S. Immigration and Customs Enforcement
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 the 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 and 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. The U.S. Immigration and Customs Enforcement (ICE) is a component of DHS. We noted certain matters involving internal control and other operational matters, related to ICE that are summarized in the Table of Financial Management Comments on the following pages, and presented for your consideration in Section I 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, not related to information technology, 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 ICE Chief Financial Officer and 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.



ICE's written response to our comments and recommendations has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

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' and ICE's 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

U.S. Immigration and Customs Enforcement
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September 30, 2010

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U.S. Immigration and Customs Enforcement
Financial Management Comments
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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, U.S. Immigration and Customs Enforcement (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.

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 internal use software projects and to ensure that all pertinent ICE offices work collaboratively to resolve the control issues identified.

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.

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.

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, National Protection and Programs Directorate (NPPD) and Science and Technology Directorate (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.

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.

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

KPMG judgmentally selected a sample of 45 items from the population of 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.

FMC 10-08 – Subject to Availability of Funding Agreements are not Obligated in 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.

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 develop a process to accrue for capitalized costs incurred at period end related to software and leasehold improvement projects.

U.S. Immigration and Customs Enforcement
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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.

FMC 10-11 – 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 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.

FMC 10-12 – Intragovernmental Payment and Collection (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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FMC 10-13 – Inability to Support UDO 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.

U.S. Immigration and Customs Enforcement
Crosswalk - Financial Management Comments to NFRs
 September 30, 2010

NFR No.	Description	Disposition ¹			
		IAR			FMC
		MW	SD	NC	No.
10-01	Inadequate Internal Controls Over Tracking Leasehold Improvement Projects				10-01
10-02	Inadequate Internal Controls Over Tracking Internal Use Software (IUS) Projects				10-02
10-03	Ineffective Internal Controls Over Leave Audit Process				10-03
10-04	Ineffective Review Controls Over the Preparation and Submission of the Contingent Legal Liabilities Documentation				10-04
10-05	Ineffective Internal Controls Over SF-224 Process				10-05
10-06	Untimely Deposit of Immigration Bonds				10-06
10-07	Untimely De-Obligation of Undelivered Orders (UDO) Balances				10-07
10-08	Subject to Availability of Funding Agreements are not Obligated in the Federal Financial Management System (FFMS) at the Outset of Agreement				10-08
10-09	Lack of Accrual of Capitalized Costs Incurred at Year-end for Software and Leasehold Improvement Projects				10-09
10-10	Lack of Comparison of Accounts Payable Estimate to Actual Amounts				10-10
10-11	FFMS has the Ability to Make Duplicate Payments				10-11
10-12	Intragovernmental Payment and Collection (IPAC) Payments are Made Prior to the Establishment of an Obligation in FFMS				10-12
10-13	Inability to Support UDO Balances at Year-End				10-13
10-14	FFMIA Compliance			J	

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>

U.S. Immigration and Customs Enforcement
Status of Prior Year NFRs
 September 30, 2010

NFR No.	Description	Disposition ¹	
		Closed ²	Repeat (2010 NFR No.)
09-01	Untimely Execution of Reimbursable Agreements and Security Work Authorizations (SWAs) with Other Governmental Entities when U.S. Immigration and Customs Enforcement (ICE) is Performing the Services	X	
09-02	<i>Number not used</i>	Not applicable	
09-03	<i>Number not used</i>	Not applicable	
09-04	Obligations are Not Being Recorded in FFMS in a Timely Manner	X	
09-05	<i>Number not used</i>	Not applicable	
09-06	Discrepancies with the Leave Balances Between the National Finance Center Records and WebTA Reports are Not Being Researched and Resolved Timely		ICE 10-03
09-07	Lack of Procedures to Verify the Receipt and Acceptance of Goods or Services for IPAC Transactions	X	
09-08	<i>Number not used</i>	Not applicable	
09-09	<i>Number not used</i>	Not applicable	
09-10	<i>Number not used</i>	Not applicable	
09-11	<i>Number not used</i>	Not applicable	
09-12	<i>Number not used</i>	Not applicable	
09-13	<i>Number not used</i>	Not applicable	
09-14	<i>Number not used</i>	Not applicable	
09-15	<i>Number not used</i>	Not applicable	
09-16	<i>Number not used</i>	Not applicable	
09-17	<i>Number not used</i>	Not applicable	
09-18	Inadequacy/Ineffectiveness of Internal Controls over the Preparation and Review of the Pending/Threatened Litigation Against ICE		ICE 10-04
09-19	<i>Number not used</i>	Not applicable	
09-20	Accounts Payable Transactions are Not Being Recorded in FFMS Timely	X	
09-21	Aged Obligations are Not Timely Reviewed to Ensure the Validity and Accuracy of the UDO Balance		ICE 10-07
09-22	Inadequate and/or Inconsistent Review of Personnel Actions	X	
09-23	Untimely Resolution of Differences Identified on the Statement of Differences	X	
09-24	Noncompliance with Human Resources Laws and Regulations	X	
09-25	Duplicate Payment Transactions were Processed in FFMS		ICE 10-11
09-26	Processing of Improperly Authorized Reclassification Requests	X	
09-27	Certain Office of Detention and Removal Operations (DRO) Disbursements Should Have Been Allocated to Other Funding Sources	X	
09-28	Noncompliance with the United States Standard General Ledger – Capitalization Costs are Not Tracked on a Transaction Level	X	
09-29	<i>Number not used</i>	Not applicable	
09-30	<i>Number not used</i>	Not applicable	
09-31	Disbursements are Being Charged to an Improper Sub-Object Class	X	
09-32	IPAC Payments are Being Made Prior to an Obligation Being Set Up in FFMS		ICE 10-12

U.S. Immigration and Customs Enforcement
Status of Prior Year NFRs
 September 30, 2010

NFR No.	Description	Disposition ¹	
		Closed ²	Repeat (2010 NFR No.)
09-33	<i>Number not used</i>	Not applicable	
09-34	Insufficient Internal Controls over IUS Recorded in Previous Years		ICE 10-02
09-35	Lack of Supporting Documentation for the Distribution of the SF-132/SF-133 Reconciliations to the Budget Offices	X	

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.

U.S. Immigration and Customs Enforcement
*Management Response to the
Management Letter*

Office of the Chief Financial Officer

500 12th Street, SW Stop 5702
Washington, DC 20536-5702



U.S. Immigration
and Customs
Enforcement

February 24, 2011

MEMORANDUM FOR: Anne L. Richards
Assistant Inspector General for Audits
Office of Inspector General

FROM: *for* *Martin H. Berkelstein*
Rachha C. Sekar
Chief Financial Officer
U.S. Immigration and Customs Enforcement

SUBJECT: Response to Draft Report "*U.S. Immigrations and Customs Enforcement's
Management Letter for FY 2010 DHS Consolidated Financial Statement
Audit.*"

On behalf of U. S. Immigration and Customs Enforcement (ICE), I am responding to the draft report cited above.

ICE personnel have reviewed all 13 Financial Management Comments (FMC) contained in the report. We concur with the comments and recommendations and are in the process of implementing corrective actions required to remediate these findings.

Should you have any questions or concerns, please contact Lois Jarvis, Deputy Director for the ICE CFO Office of Assurance and Compliance at (202) 732-6240 or by e-mail at Lois.Jarvis@dhs.gov.

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