

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

U.S. Immigration and Customs Enforcement's
Management Letter for FY 2012 DHS Consolidated
Financial Statements Audit





OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

APR 5 2013

MEMORANDUM FOR: Radha Sekar
Chief Financial Officer
U.S. Immigration and Customs Enforcement

FROM: Anne L. Richards 
Assistant Inspector General for Audits

SUBJECT: *U.S. Immigration and Customs Enforcement's
Management Letter for FY 2012 DHS Consolidated
Financial Statements Audit*

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

The independent public accounting firm KPMG LLP conducted the audit of DHS' FY 2012 financial statements and is responsible for the attached management letter dated March 12, 2013, and conclusions expressed in it. We do not express opinions on DHS' financial statements or internal control, nor do we provide conclusions on compliance with laws and regulations.

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

Attachment



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

March 12, 2013

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

Ladies and Gentlemen:

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

Our *Independent Auditors’ Report*, issued on November 14, 2012, describes a limitation on the scope of our audit that prevented us from performing all procedures necessary to express an unqualified opinion on the DHS’ FY 2012 financial statements and internal control over financial reporting. In addition, the FY 2012 DHS *Secretary’s Assurance Statement* states that the Department was able to provide qualified assurance that internal control over financial reporting was operating effectively at September 30, 2012. We have not considered internal control since the date of our *Independent Auditors’ Report*.

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

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

We would be pleased to discuss these comments and recommendations with you at any time. This report is intended for the information and use of the DHS’ and ICE’s management, the DHS OIG, the U.S. OMB, 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

Immigration and Customs Enforcement
Table of Financial Management Comments
September 30, 2012

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

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

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

Recommendation:

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

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

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

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

Recommendation:

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

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

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

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

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

Recommendation:

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

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

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

Recommendation:

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

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

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

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

Recommendations:

We recommend that the ICE Office of Human Capital:

- Ensure that all employees responsible for timekeeping are appropriately trained in all aspects of the time and attendance system.
- Analyze leave error reports to identify any common causes related to errors in the timekeeping process.

- Continue to review and report to program offices on timekeeping errors to ensure correction no later than two pay periods from the date of official notification.
- Develop new quick reference guidance to supplement the currently used guidance which will educate timekeepers on the newly implemented bi-directional feed process and reinforce the actions required in the leave audit process.
- Implement the “Timekeeping and Attendance Directive” that establishes responsibilities for all managers, supervisors and employees involved in the timekeeping process and sets internal controls for leave errors.

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

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

Recommendations:

We recommend that ICE:

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

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

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

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

Recommendations:

We recommend that ICE:

- Continue to implement the guidance issued by OBPP in August 2012 to Program Offices regarding the proper use of the SAF clause.
- Fund detention bed contracts in a manner such that the use of the SAF clause is not required at the start of the fiscal year.
- Continue the coordinated multi-office review of obligations that are not recorded in a timely manner.

- Structure the period of performances in ERO agreements so that they are staggered throughout the year in order to reduce reliance on the SAF clause.
- Continue to use the revised procedures implemented by the Office of Acquisitions to ensure that task order periods of performances do not exceed the funding level on the individual task orders.

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

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

Recommendation:

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

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

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

Recommendation:

We recommend that:

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

Immigration and Customs Enforcement
Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2012

NFR No.	Description	Disposition ¹			
		IAR			FMC
		MW	SD	NC	No.
12-01	Inadequate Controls over New Hire Ethics Briefings				12-01
12-02	Student and Exchange Visitor Information System Data is not Reconciled to Federal Financial Management System (FFMS) data				12-02
12-03	Inadequate Policies and Procedures for Tracking and Reporting Personal Property	C			
12-04	Inadequate Internal Controls over Tracking of Internal Use Software (IUS) Projects	C			
12-05	Inadequate Internal Controls over Tracking Leasehold Improvement Projects	C			
12-06	Prior Period Settlement Expense	A			
12-07	Government Accountability Office (GAO) Checklist Review				12-03
12-08	Untimely Review of Office of Government Ethics (OGE)-450 Forms				12-04
12-09	Ineffective Internal Controls Over Leave Audit Process				12-05
12-10	FFMS to Purchase Request Information System (PRISM) Reconciliation				12-06
12-11	Subject to Availability of Funding Agreements not Obligated in FFMS at Outset of Agreement				12-07
12-12	Failure to Reverse Payroll Accrual	A			
12-13	Advances and Affiliated Obligations	E			
12-14	Federal Financial Management Improvement Act of 1996 (FFMIA) Compliance			J	
12-15	Inadequate Documentation of Subsequent Events Review Procedures	A			
12-16	Inadequate Documentation of Inventory Procedures	C			
12-17	Accounts Payable (A/P) Estimation Methodology Does not Contain Procedures for Considering Improvements to Methodology				12-08
12-18	Deficiencies in Entity-level Controls (ELCs)		F		
12-19	Untimely de-obligation of Undelivered Order (UDO) Balances	E			
12-20	Recoveries of Prior Year Unpaid Obligations	E			
12-21	Inadequate Policies and Procedures for Property Plant and Equipment (PP&E) Accruals				12-09

¹Disposition Legend:

IAR Independent Auditors' Report dated November 14, 2012

FMC Financial Management Comment

MW Contributed to a Material Weakness at the Department level when combined with the results of all other components

SD Contributed to a Significant Deficiency at the Department level when combined with the results of all other components

NC Contributed to Non-Compliance with laws, regulations, contracts, and grant agreements at the Department level when combined with the results of all other components

NFR Notice of Finding and Recommendation

Immigration and Customs Enforcement
Crosswalk – Financial Management Comments to Active NFRs
September 30, 2012

Cross-reference to the applicable sections of the IAR:

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

Immigration and Customs Enforcement
Status of Prior Year NFRs
 September 30, 2012

NFR No.	Description	Disposition ¹	
		Closed ²	Repeat (2011 NFR No.)
11-01	The Federal Financial Management System (FFMS) has the Ability to Make Duplicate Payments	X	
11-02	Failure to Record Payroll Accrual	X	
11-03	General Journal Entry Not Approved by Office of Financial Management Director	X	
11-04	Inadequate Internal Controls over Tracking and Removing Accumulated Depreciation in Sunflower Asset Management System	X	
11-05	Process for Identifying Contract-type Obligations for Contract Closeout is Delayed		ICE 12-19
11-06	Inadequate Internal Controls over Tracking Leasehold Improvement Projects		ICE 12-05
11-07	Untimely Recording of Capitalized Asset Disposals		ICE 12-03
11-08	Reimbursable Agreements Not Timely Approved by Budget Officer	X	
11-09	<i>Number Not Used</i>	Not applicable	
11-10	Contracting Officer has Access to Approve Invoices in FFMS	X	
11-11	Incorrect Federal Employees' Group Life Insurance Deduction	X	
11-12	Untimely Review of Office of Government Ethics 278 Forms		ICE 12-08
11-13	Insufficient Documentation for Federal Employees' Compensation Act Claims	X	
11-14	Federal Financial Management Improvement Act (FFMIA) Compliance		ICE 12-14
11-15	Inadequate Controls over New Hire Ethics Briefings		ICE 12-01
11-16	Subject to Availability of Funding Agreements not Obligated in FFMS at Outset of Agreement		ICE 12-11
11-17	Ineffective Internal Controls over Leave Audit Process		ICE 12-09
11-18	ICE Does Not Accrue Capitalized Costs Incurred at year-end for Software and Leasehold Improvement Projects	X	
11-19	Inadequate Internal Controls over Tracking of Internal Use Software (IUS) Projects		ICE 12-04

¹ KPMG was engaged to perform an audit over the DHS balance sheet as of September 30, 2012, and the related statements of net cost, changes in net position and custodial activity, and combined statement of budgetary resources for the year then ended. In addition, we were engaged to follow-up on the status of all active NFRs that supported significant deficiencies reported in our FY 2011 *Independent Auditors' Report*.

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



Appendix C

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