

**United States
Immigration and
Customs Enforcement's
Management Letter for
DHS' Fiscal Year 2016
Financial Statements
Audit**





DHS OIG HIGHLIGHTS

United States Immigration and Customs Enforcement's Management Letter for

DHS' Fiscal Year 2016 Financial Statements Audit

June 12, 2017

Why We Did This Report

The *Chief Financial Officers Act of 1990* (Public Law 101-576) and the *Department Of Homeland Security Financial Accountability Act* (Public Law 108-330) require us to conduct an annual audit of the Department of Homeland Security's (DHS) consolidated financial statements and internal control over financial reporting.

During the fiscal year (FY) 2016 audit of DHS' consolidated financial statements and internal control over financial reporting, KPMG LLP noted certain matters involving the U.S. Immigration and Customs Enforcement's internal control and other operational matters.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

KPMG LLP, under contract with the DHS Office of Inspector General, audited the U.S. Immigration and Customs Enforcement's financial statements and internal control over financial reporting for FY 2016. The resulting management letter contains nine observations related to internal controls and other operational matters which are presented in this report for management's consideration. KPMG LLP noted internal control deficiencies in several processes including intra-governmental payment and collection expense approval; accounts payable analysis, payroll cash reconciliation; performance reviews; and financial disclosure reporting. These deficiencies are not considered significant and were not required to be reported in the *Independent Auditors' Report on DHS' FY 2016 Financial Statements and Internal Control over Financial Reporting*, dated November 14, 2016, included in the DHS FY 2016 *Agency Financial Report*.

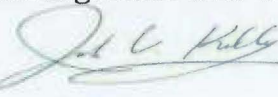


OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

June 12, 2017

MEMORANDUM FOR: Stephen Roncone
Acting Chief Financial Officer
United States Immigration and Customs Enforcement

FROM: John V. Kelly 
Deputy Inspector General

SUBJECT: *United States Immigration and Customs Enforcement's
Management Letter for DHS' Fiscal Year 2016
Financial Statements Audit*

Attached for your information is our final report, *United States Immigration and Customs Enforcement's Management Letter for DHS' Fiscal Year 2016 Financial Statements Audit*. This report contains nine observations related to internal control deficiencies that were not required to be reported in our *Independent Auditors' Report on DHS' FY 2016 Financial Statements and Internal Control over Financial Reporting*, dated November 14, 2016, which was included in the Department of Homeland Security's (DHS) fiscal year (FY) 2016 *Agency 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 2016 financial statements and is responsible for the attached management letter and the conclusions expressed in it.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Maureen Duddy, Deputy Assistant Inspector General for Audits, at (617) 565-8723.

Attachment



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

December 8, 2016

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 planned and performed our audit of the consolidated financial statements (hereinafter referred to as the "financial statements") of the U.S. Department of Homeland Security (DHS or Department), as of and for the year ended September 30, 2016, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. We considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements. In conjunction with our audit of the consolidated financial statements, we also performed an audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the internal control requirements included in OMB Bulletin No. 15-02.

During our audits we noted certain matters involving the Immigration and Customs Enforcement's (ICE) internal control and other operational matters that are presented for your consideration. 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 observations and recommendations are summarized in Exhibit I of this letter and are not considered significant deficiencies or material weaknesses in internal control over financial reporting. Significant deficiencies and material weaknesses in internal control over financial reporting have been previously communicated to the DHS Office of Inspector General (OIG) and management in our *Independent Auditors' Report*, dated November 14, 2016, included in the fiscal year 2016 DHS *Agency Financial Report*.

Deficiencies related to ICE information technology (IT) controls have been presented in a separate letter to the DHS Office of Inspector General, ICE Chief Information Officer, and ICE Chief Financial Officer.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and on the effectiveness of internal control over financial reporting, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of ICE's organization gained during our work to make comments and suggestions that should be useful to you.

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



The purpose of this letter is solely to describe comments and recommendations intended to improve internal control or result in other operating efficiencies. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

U.S. Immigration and Customs Enforcement
Table of Financial Management Comments
September 30, 2016

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

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U.S. Immigration and Customs Enforcement
Financial Management Comments and Recommendations
September 30, 2016

FMC 16-01 – Untimely Deposit of Bond Cash Receipts (NFR No. ICE 16-01)

Controls were not operating effectively to ensure that bond receipts that the Enforcement and Removal field offices received were deposited timely. Specifically, during our testwork of open bonds as of June 30, 2016, we noted that for one sample, the bond was issued and the obligator made the payment on November 30, 2015; however the field office did not make deposit until December 21, 2015.

Recommendation:

ICE should review and update, as necessary, its manual bond procedures and continue to train process owners on the proper handling of bonds.

FMC 16-02 – Untimely Intra-Governmental Payment and Collections (IPAC) Expense Approval (NFR No. ICE 16-02)

Controls were not operating effectively to ensure that IPACs were reviewed and posted to the general ledger timely. Specifically, we identified five instances of untimely posting of an IPAC expenditure to the general ledger.

Recommendation:

ICE should explore possible solutions to get improved responses from its programs on IPACs including the review of the current escalation procedures and changes to current processing goals.

FMC 16-03 – Insufficient Obligation Analysis (NFR No. ICE 16-03)

Controls were not fully effective to ensure that clear and concise documentation was readily available to support the status assigned to obligations on the Obligation Analysis template. Specifically, we identified the following:

- Two contracts had an expired period of performance and no FY 2016 activity that were assigned a Status 1 (i.e., open, valid obligation). However, there was no clear and concise documentation available to support the status included in the Obligation Analysis. This contract was under Defense Contract Audit Agency (DCAA) audit and per the Components Requirement Guide, in this instance, strong supporting documentation was required.
- One contract had an expired period of performance and no FY 2016 activity that was assigned a Status 1. However, the documentation provided indicated that the component did not complete the review of this obligation.
- One contract had an expired period of performance and no FY 2016 activity that was assigned a Status 1. However, the documentation provided indicated a Status of 4 (i.e., obligation ready for closeout). The applicable program office communicated that the contract was ready to be deobligated, but the closeout had not yet been completed.

Recommendation:

ICE should update its standard operating procedures to include specific guidance on proper documentation support for obligations to ensure responses to undelivered order data calls are complete and accurate.

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FMC 16-04 – Insufficient Payroll Cash Reconciliation (NFR No. ICE 16-04)

Controls were not operating effectively to ensure that payroll differences for all Treasury account fund symbols were identified on the face of the payroll cash reconciliation. Specifically, during our review of the February 2016 payroll cash reconciliation that Financial Operations-Dallas performed for the Management Directorate, we noted that one Treasury account fund symbol had payroll activity during the reporting period but was not included on the face of the payroll cash reconciliation.

Recommendation:

ICE should consistently report all Treasury account fund symbols with activity on the payroll cash reconciliation cover page.

FMC 16-05 – Untimely Performance Reviews (NFR No. ICE 16-07)

Controls were not operating effectively to ensure initial and final Performance Appraisal Forms were reviewed and approved timely.

Recommendation:

ICE should:

- Continue to issue communications, via a broadcast message, outlining the performance appraisal review process to all supervisors and managers at the end of every performance cycle as a reminder of the correct steps in the final rating process.
- Remind each Headquarter Program Office Performance Point of Contact to emphasize the correct final rating process with their respective supervisors and managers during the final rating process.

FMC 16-06 – Non-Compliance with Financial Disclosure Filing Requirements (NFR No. ICE 16-08)

Controls were not fully effective to ensure all Office of Government Ethics (OGE)-450 forms were filed and certified timely. Specifically, out of 45 samples, we identified the following:

- Although the reviewing supervisor was copied on the filer submission notices, one form was not certified timely due to a delay in supervisory review. Reminder and past due notifications were not timely sent to the supervisor.
- One employee was identified as a new filer; however, a notification to file was not sent to the employee. Upon further review after the filing due date, it was determined that the filer did not meet the requirements to file.
- One form in which the final certification was not completed timely.

Recommendation:

The ICE Ethics Office should:

- Continue to commit to provide equal focus to new entrant filers in accordance with its current written procedures.

U.S. Immigration and Customs Enforcement
Financial Management Comments and Recommendations
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- Continue to provide reminder and past due notifications to delayed supervisory review in accordance with its current written procedures.

FMC 16-07 – Insufficient Procurement Information System for Management (PRISM) to Federal Financial Management System (FFMS) Reconciliation (NFR No. ICE 16-09)

ICE did not fully implement controls to ensure that all obligations awarded in ICE's procurement writing system, PRISM, were posted timely to its financial system of record, FFMS. Specifically, we noted that one Title III procurement contract identified as a variance through the reconciliation process did not have evidence of research and resolution.

Recommendation:

ICE Office of Financial Management should update the PRISM to FFMS reconciliation process to ensure validation and resolution of any differences identified.

FMC 16-08 – Accounts Payable Lookback Analysis (NFR No. ICE 16-10)

The Accounts Payable lookback analysis was not properly designed and operating effectively to assess the historical accuracy of the Accounts Payable accrual. Specifically, we identified the following:

- The percentage variance per the lookback analysis was calculated as (dollar variance/accrual amount). However, we noted that the percentage variance should have been calculated as (dollar variance/actual amount).
- The accrual amount per the lookback analysis for the second quarter did not agree to the accrual amount per the financial statements. We noted a difference of \$340,604.

Recommendation:

ICE should review key controls in the review process for the Accounts Payable lookback analysis, and ensure that additional oversight is included in the management review process.

FMC 16-09 – Out of Period Expenses (NFR No. ICE 16-11)

Controls were not operating effectively to ensure that operating expenses related to contracts were posted to the general ledger in the appropriate accounting period. Specifically, we identified that expenses incurred for the period of performance of September 15, 2016, through September 14, 2017, were expensed entirely in FY 2016. This resulted in an overstatement of expenses and understatement of prepaid assets at year end.

Department of Homeland Security
Financial Management Comments and Recommendations
September 30, 2016

Recommendation:

ICE should:

- Develop guidance on how to identify and report on prepaid assets on a periodic basis.
- Provide training to Contracting Officer Representatives and Program Office Point of Contacts on contracts in which payments are required in advance.

U.S. Immigration and Customs Enforcement
 Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2016

| NFR No. | Description | Disposition ¹ | | | FMC No. |
|---------|---|--------------------------|----|----|---------|
| | | IAR | | | |
| | | MW | SD | NC | |
| 16-01 | Untimely Deposit of Bond Cash Receipts | | | | 16-01 |
| 16-02 | Untimely Intra-governmental Payment and Collection Expense Approval | | | | 16-02 |
| 16-03 | Insufficient Obligation Analysis | | | | 16-03 |
| 16-04 | Insufficient Payroll Cash Reconciliation | | | | 16-04 |
| 16-05 | Impact of General Information Technology Control Failures on Application Controls and System Generated Information Produced by the Entity | B | | | |
| 16-06 | Ineffective Funds Management | B | | | |
| 16-07 | Untimely Performance Reviews | | | | 16-05 |
| 16-08 | Non-Compliance with Financial Disclosure Filing Requirements | | | | 16-06 |
| 16-09 | Insufficient Procurement Information System for Management to Federal Financial Management System Reconciliation | | | | 16-07 |
| 16-10 | Accounts Payable Lookback Analysis | | | | 16-08 |
| 16-11 | Out of Period Expenses | | | | 16-09 |

¹Disposition Legend:

IAR Independent Auditors' Report dated November 14, 2016

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

Cross-reference to the applicable sections of the IAR:

A Information Technology Controls and Financial System Functionality

B Financial Reporting

C Property, Plant, and Equipment

D Entity-Level Controls

E Grants Management

F Custodial Revenue and Refunds and Drawback

G *Federal Managers' Financial Integrity Act of 1982*H *Single Audit Act Amendments of 1996*I *Antideficiency Act, as amended*J *Federal Financial Management Improvement Act of 1996*



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Department of Homeland Security

Appendix B
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