

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

U.S. Citizenship and Immigration Services'
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 3 2013

MEMORANDUM FOR: Joseph Moore
Chief Financial Officer
U.S. Citizenship and Immigration Services

FROM: Anne L. Richards 
Assistant Inspector General for Audits

SUBJECT: *U.S. Citizenship and Immigration Services' Management Letter for FY 2012 DHS Consolidated Financial Statements Audit*

Attached for your information is our final report, *U.S. Citizenship and Immigration Services' 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 fiscal year (FY) 2012 DHS *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 United States Citizenship and Immigration Services
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 United States Citizenship and Immigration Services (USCIS) is a component of DHS. We noted certain matters, related to USCIS, 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 USCIS 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 USCIS 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 USCIS’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

United States Citizenship and Immigration Services
Table of Financial Management Comments
September 30, 2012

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FMC 12-01 – Inadequate Policies and Procedures over the Review of Personnel Actions (NFR No. USCIS 12-01)

During the walkthrough over the processing of Standard Form (SF)-52 forms, KPMG noted that prior to May 1, 2012, the same individual could request and authorize the personnel actions. As such, KPMG determined that prior to May 1, 2012, United States Citizenship and Immigration Services (USCIS) did not have proper segregation of duties in place over the processing of SF-52s.

Recommendations:

We recommend that USCIS:

- Human Resources Operations Center (HROC) continues to monitor the status of Electronic System for Personnel (ESP) roles and responsibilities. The Systems Team should conduct a quarterly review with its customers (as already highlighted in the updated Standard Operating Procedures) to ensure accuracy of roles and thus comply with the requirement to separate roles within ESP.
- The Quality Team within HROC should conduct periodic internal audits to ensure accuracy and completeness of the corrective action.

FMC 12-02 – Insufficient Reconciliation Between the Purchase Request Information System (PRISM) and Federal Financial Management System (FFMS) (NFR No. USCIS 12-02)

USCIS did not sufficiently address the risk that obligation data from PRISM is not recorded timely into FFMS for the period from October 1, 2011 – May 31, 2012. USCIS performed a reconciliation of data from USASpending.gov to FFMS during this period. However, we identified that this process causes USCIS to inadvertently rely on the transfer of information from Federal Procurement Data System – Next Generation to USASpending.gov. USCIS did not implement other procedures to assess the completeness and accuracy of the data transfer from Federal Procurement Data System – Next Generation to USASpending.gov.

We noted that USCIS performed a review of open commitments, which partially mitigates the condition noted above. However, the review was not performed regularly (e.g., quarterly), and is not formally documented with management review and approval. As of June 30, 2012, USCIS had performed the open commitments review twice: once in February and once in May.

We also noted that USCIS retroactively reconciled PRISM to FFMS for the period October 1, 2011 – May 31, 2012 on June 5, 2012.

Recommendation:

We recommend that USCIS continue to perform a monthly reconciliation of PRISM to FFMS as was started in June 2012.

FMC 12-03 – Potential Non-Compliance with Office of Government Ethics (OGE) Form 450 Filing Requirements (NFR No. USCIS 12-03)

USCIS did not obtain and review all of the required OGE Form 450 *Confidential Financial Disclosure Report* forms from its employees by the February 15, 2012, deadline. This deadline is imposed by the OGE.

Recommendation:

We recommend that USCIS ensure that the OGE Form 450 policies and procedures are understood and implemented.

FMC 12-04 – USCIS Contracting Officers Disregarded DHS Invoice Approval Requirements (NFR No. USCIS 12-04)

During FY 2012, USCIS identified that contracting officers (COs) within the Contract Administration Division provided Contracting Specialists with pre-signed labels for use in approving invoices on cost-type contracts where CO approval is required.

The pre-signed labels were typically used by Contracting Specialists when there was uncertainty as to whether an invoice for a cost-type contract would be approved in a timely manner (e.g., when the CO was out of the office).

Recommendation:

There are no recommendations as corrective action was taken during FY 2012.

FMC 12-05 – Insufficient Review of Journal Entries (JEs) (NFR No. USCIS 12-05)

KPMG selected 45 manual JEs for control and substantive testwork, and noted the following errors:

- General Journal # 15099548: USCIS recorded the reclassification of balances within Treasury Account Fund Symbols (TAFS) 705106 using the incorrect percentages to allocate the funds between trading partners 16, 49 and 70. As a result of the error, trading partner balances totaling approximately \$10 million were misstated within the following Standard General Ledger (SGL) accounts:
 - 2985, Liability for Non-Entity Assets Not Reported on the Statement of Custodial Activity;
 - 5993, Offset to Non-Entity Collections - Statement of Changes in Net Position; and
 - 5994, Offset to Non-Entity Accrued Collections - Statement of Changes in Net Position.

KPMG noted that the overall SGL balances were correct, but that the individual trading partner balances within the SGL account were misstated.

Recommendations:

We recommend that USCIS:

- Automate the calculation of the trading partner allocation to reduce the potential for using the incorrect allocation percentages.
- Periodically check the allocation balance to ensure the recorded allocation by trading partner is consistent with the required allocation.

FMC 12-06 – Inaccurate Data in the Claims 3 (C3), Claims 4 (C4), and Marriage Fraud Amendment Systems (MFAS) (NFR No. USCIS 12-06)

KPMG conducted testwork over the FY 2012 third and fourth quarter list-to-floor audits and noted the following:

- In the third quarter of the audit, 179 of the 680 samples, or 26.3%, were determined to be not pending by USCIS. In the fourth quarter of the audit, 207 of the 680 samples, or 30.4%, were determined to be not pending by USCIS. These error rates are indicative of a deficiency in internal control in the application adjudication process and exist on USCIS's largest application tracking systems: C3, C4 and MFAS.
- The deferred revenue quarterly sampling and verification process identifies discrepancies in the status of applications where errors between the system query results and the hard copy application exist; however, the faulty data was not corrected within the systems.

Recommendation:

We recommend that USCIS focus on the controls and reporting functions incorporated in Electronic Immigration System to ensure the new application tracking system will allow for the direct reporting of the deferred revenue. The controls over the application status should eventually allow USCIS to retire their legacy tracking systems and replace the current estimation process.

FMC 12-07 – Insufficient Reivew of Deposit Transactions (NFR No. USCIS 12-07)

During testwork over a sample of 45 deposits, we noted that for 5 transactions, the Burlington Finance Center recorded a portion of the deposit amount to the incorrect item type. In each instance, the amount of the entry was correct and the item types (incorrect and correct) were recorded within the correct TAFS. As such, no financial statement misstatement was identified as a result of the errors.

Recommendation:

We recommend that USCIS and Immigration and Customs Enforcement (ICE) evaluate the errors made and implement the controls that are deemed necessary for this process, possibly including an automation of this process where possible.

FMC 12-08 – Inadequate Monitoring of Fee Table Changes in Deferred Revenue Estimate Process (NFR No. USCIS 12-08)

KPMG performed testwork over the third quarter list-to-floor samples and noted the following:

- The original fee amount per the system did not agree to the historical fee table for 260 of the 680 samples. Of the errors noted, 186 samples were C3 applications and 74 were MFAS applications.
- The current fee table became effective on November 23, 2010. The C3 and MFAS systems were not properly coded to pull the new fee amounts for applications with receipt dates after November 23, 2010.

Recommendation:

There are no recommendations as USCIS remediated the deficiency in the current year, and we performed testwork over the remediation, noting no exceptions.

FMC 12-09 – Deficiencies in the Recording of Internal Use Software (IUS) (NFR No. USCIS 12-09)

As a result of USCIS's review of Office of Transformation Coordination and Office of the Chief Information Officer costs, USCIS recorded the following corrective adjustments to the IUS balance:

- USCIS recorded prior year adjustments to IUS of \$30.1 million.
- USCIS identified ten new IUS projects for which costs were previously recorded as expenses. Three of the ten projects were initiated in prior years.

During testwork over the Office of Transportation Coordination projects as of June 30, 2012 and September 30, 2012, we noted that USCIS incorrectly capitalized Electronic Immigration System training and data conversion costs.

During testwork over a sample of Office of the Chief Information Officer project costs as of September 30, 2012, we noted the following:

- USCIS incorrectly capitalized Office of the Chief Information Officer training and maintenance costs.
- USCIS was unable to provide supporting documentation for capitalized costs.

Recommendation:

We recommend that the USCIS Office of Chief Financial Officer (OCFO), Office of Transformation Coordination, Office of Information Technology (OIT), USCIS Contracting and other involved program offices continue to work together to develop and implement effective policies and procedures to ensure the accurate and timely identification and reporting of software developments cost.

FMC 12-10 – Deficiencies in the Timely Recording of Capital Equipment (NFR No. USCIS 12-10)

We reviewed the Property Plant and Equipment (PP&E) activity recorded to the general ledger (GL) during FY 2012 and noted that USCIS recorded prior period equipment costs as additions for 46 items in the current year.

In addition, we selected a statistical sample of PP&E transactions related to asset additions and disposals, and noted the following:

- USCIS disposed of equipment in the second quarter of FY 2011 but did not record the transaction in the GL until the second quarter of FY 2012.
- USCIS was unable to provide supporting documentation for two capitalized equipment additions.

United States Citizenship and Immigration Services
Financial Management Comments
September 30, 2012

Recommendations:

We recommend that the USCIS:

- The OCFO, Office of Administration, OIT, and USCIS Contracting continue to work together to develop and implement effective policies and procedures that ensure PP&E acquisitions are processed in a standardized method.
- Roles and responsibilities for ordering, purchasing, delivery, receiving, and establishing accountability should be addressed.
- Additionally, these procedures should ensure the responsible offices provide accurate documentation to the appropriate personnel for timely and accurate data entry into the asset management system and financial management system.

United States Citizenship and Immigration Services
Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2012

NFR No.	Description	Disposition ¹			
		IAR			FMC
		MW	SD	NC	No.
12-01	Inadequate Policies and Procedures over the Review of Personnel Actions				12-01
12-02	Insufficient Reconciliation between Purchase Request Information System (PRISM) and Federal Financial Management System (FFMS)				12-02
12-03	Potential Non-Compliance with Office of Government Ethics (OGE)-450 Filing Requirements				12-03
12-04	USCIS Contracting Officers Disregarded DHS Invoice Approval Requirements				12-04
12-05	Insufficient Review of Journal Entries (JEs)				12-05
12-06	Inaccurate Data in the Claims 3 system, Claims 4 system, and Marriage Fraud Amendment System				12-06
12-07	Insufficient Review of Deposit Transactions				12-07
12-08	Inadequate Monitoring of Fee Table Changes in Deferred Revenue Estimate Process				12-08
12-09	Deficiencies in the Recording of Internal Use Software (IUS)				12-09
12-10	Deficiencies in the Timely Recording of Capital Equipment				12-10

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

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	<i>Federal Managers' Financial Integrity Act of 1982 (FMFIA)</i>
J	<i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i>
K	<i>Single Audit Act Amendments of 1996</i>
L	<i>Antideficiency Act, as amended (ADA)</i>

United States Citizenship and Immigration Services
Status of Prior Year NFRs
 September 30, 2012

NFR No.	Description	Disposition ¹	
		Closed ²	Repeat (2011 NFR No.)
11-01	Lack of Controls over List-to-Floor Manual Processes	X	
11-02	Deficiencies in the Timely Recording of Capital Property Plant and Equipment (PP&E)		USCIS 12-10
11-03	Lack of Policies and Procedures over Non-Itemized Invoices for PP&E	X	
11-04	Inadequate and/or Inconsistent Supervisory Review of Personnel Actions		USCIS 12-01
11-05	Inadequate Supervisory Review of the Intra-Departmental Eliminations Reconciliation	X	
11-06	Untimely Change in Accounting Policies and Practices	X	
11-07	Inadequate Data in the Claims 3 system, Claims 4 system, and Marriage Fraud Amendment System		USCIS 12-06
11-08	Inadequate Documentation and Untimely Capitalization of Internal Use Software (IUS)		USCIS 12-09

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.



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