

OFFICE OF INSPECTOR GENERAL

**United States Immigration and
Customs Enforcement's
Management Letter for DHS'
FY 2014 Financial Statements
Audit**



Homeland
Security

**April 16, 2015
OIG-15-71**



HIGHLIGHTS

United States Immigration and Customs Enforcement's Management Letter for DHS' FY 2014 Financial Statements Audit

April 16, 2015

Why We Did This

The Federal Government has a fundamental responsibility to be an effective steward of taxpayers' dollars. Sound financial practices and related management operations, reliable financial systems, and effective internal control are essential for reliable, timely financial information that supports management decision making needed to achieve the Department of Homeland Security's (DHS) mission.

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 reviewed the United States Immigration and Customs Enforcement's (ICE) internal control over financial reporting. The management letter contains five observations related to internal control and other operational matters for management's considerations.

KPMG LLP noted deficiencies and the need for improvement in certain ICE processes. These deficiencies did not meet the criteria to be reported in the *Independent Auditors' Report on DHS' FY 2014 Financial Statements and Internal Control over Financial Reporting*, dated November 14, 2014, included in DHS' fiscal year 2014 *Agency Financial Report*. These observations are intended to improve internal control or result in other operating efficiencies.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

APR 16 2015

MEMORANDUM FOR: Johnathan Carver
Chief Financial Officer
United States Immigration and Customs Enforcement

FROM: Mark Bell *Mark Bell*
Assistant Inspector General for Audits

SUBJECT: *United States Immigration and Customs Enforcement's
Management Letter for DHS' FY 2014 Financial
Statements Audit*

Attached for your information is our final report, *United States Immigration and Customs Enforcement's Management Letter for DHS' FY 2014 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 2014 Financial Statements and Internal Control over Financial Reporting*. Internal control deficiencies which are considered significant deficiencies were reported, as required, in the *Independent Auditors' Report*, dated November 14, 2014, which was included in the Department of Homeland Security (DHS) fiscal year (FY) 2014 *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 2014 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 appropriate 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 Paul Wood, Acting Deputy Assistant Inspector General for Audits, at (202) 254-4100.
Attachment



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

December 8, 2014

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:

In planning and performing our audit of the consolidated financial statements of the U.S. Department of Homeland Security (DHS or Department), as of and for the year ended September 30, 2014, 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. 14-02, *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 U.S. Immigration and Customs Enforcement (ICE) is a component of DHS. During our audit we noted certain matters involving internal control and other operational matters, related to ICE, 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 matters are summarized in the Table of Financial Management Comments on the following pages. The disposition of each internal control deficiency identified during our FY 2014 audit – as either reported in our *Independent Auditors' Report*, or herein as a financial management letter comment – is presented in Appendix A. Our findings related to information technology systems have been presented in a separate letter to the DHS Office of Inspector General, the ICE Chief Information Officer and 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 we hope will 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

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FMC 14-01 – General Property, Plant, and Equipment Additions and Deletions (*Notice of Finding and Recommendation (NFR) No. U.S. Immigration and Customs Enforcement (ICE) 14-03*)

Controls were not operating effectively to ensure that capitalized assets were timely and accurately recorded in the Sunflower Asset Management System and the general ledger. Specifically we noted three of the additions selected for testwork related to assets that should not have been recorded in Sunflower Asset Management System as they were already recorded in another property subledger. Additionally, we noted a disposal related to the theft of property was not removed from the general ledger timely. Both of these resulted in an overstatement of the property, plant, and equipment general ledger balance.

Recommendation:

We recommend that ICE implement procedures for a review of all capitalized assets prior to recording to the general ledger.

FMC 14-02 – Approval of Personnel Actions – Administrative Uncontrolled Overtime (*NFR No. ICE 14-09*)

The Summary of Administrative Uncontrollable Overtime forms to support administrative uncontrolled overtime payments to employees could not be provided timely.

Recommendation:

We recommend that ICE continue to enhance policies and procedures regarding the approval and changes related to Administrative Uncontrolled Overtime, including document retention.

FMC 14-03 – Office of Government Ethics (OGE)-450 Form: Confidential Financial Disclosure Report and OGE-278 Form: Public Financial Disclosure Report (*NFR No. ICE 14-13*)

OGE-450 Reports:

Based on our walkthrough conducted in the current fiscal year we note the following control weaknesses:

- Existing controls were not fully effective to track all Confidential Financial Disclosure reports (OGE 450).
- Existing controls are not operating effectively to ensure all forms are certified by the Ethics Office within 60 days.

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OGE-278 Reports:

- Existing controls are not operating effectively to ensure all Public Financial Disclosure reports (OGE 278) are certified by the Ethics Office within 60 days. We selected a sample of 15 OGE 278 reports for testwork, noting one form was not certified within 60 days of filing. The filer disclosed several transactions which required additional review and research.

Recommendation:

We recommend that the ICE Ethics Office continue implementing the e-filing system acquired in FY 2014.

FMC 14-04 – Apportionments (NFR No. ICE 14-16)

Controls were not operating effectively to ensure funds were appropriately presented as either available or unavailable in the financial statements. Specifically, we noted:

- Balances recorded in the unapportioned balance as of September 30, 2014 should have been recorded as Apportioned in the General Ledger.
- The Apportionment and Reapportionment Schedule (Standard Form (SF)-132) to the Report on Budget Execution and Budgetary Resource (SF-133) reconciliation was not performed appropriately.

Recommendations:

We recommend that ICE:

- Review and enhance existing policies and procedures for recording budget authority and performing the SF-132 to SF-133 reconciliation.
- Review and revise year-end closing processes and procedures to address erroneous impact on apportioned and unapportioned balances.

FMC 14-05 – Completeness of the Lease Footnote Disclosure and Timely Capitalization of Leasehold Improvements (NFR No. ICE 14-17)

Controls were not operating effectively to ensure the lease footnote disclosure was complete and accurate and that executed occupancy agreements were recorded timely. Specifically, we noted:

- Five instances in which non-cancellable occupancy agreements future minimum lease payments were recorded based on incorrect versions of the occupancy agreements as of September 30, 2014.
- One instance of future minimum lease payments that were incomplete based on costs reported to ICE through the Real Property Management System.
- One instance of future minimum lease payments, recorded on the footnote that were recorded in the wrong year.

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Recommendation:

We recommend that ICE perform a review of all occupancy agreements, and Real Property Management System data, to ensure completeness and accuracy of reported future minimum lease payments prior to update in the financial system.

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 Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2014

Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
ICE	14-01	Funds Management and Untimely Recording of Obligation Activity to the General Ledger	D			
ICE	14-02	Untimely Posting of De-obligations	D			
ICE	14-03	General Property, Plant, and Equipment Additions and Deletions				14-01
ICE	14-04	Undelivered Orders Analysis	D			
ICE	14-05	Imputed Costs General Journal Entry	A		K	
ICE	14-06	IPAC Expense Approval	A			
ICE	14-07	Invoice Receipt	B,D			
ICE	14-08	Anti-Deficiency Act			J	
ICE	14-09	Approval of Personnel Actions – Administrative Uncontrolled Overtime				14-02
ICE	14-10	Travel Expense Authorization and Approval	A			
ICE	14-11	Financial Reporting – General Journal Entry	A			
ICE	14-12	Financial Reporting	A,B	E	K	
ICE	14-13	OGE-450 Form: Confidential Financial Disclosure Report and OGE-278 Form: Public Financial Disclosure Report				14-03
ICE	14-14	Non-Contract Undelivered Orders	A,D			
ICE	14-15	Rent Bill Expense Approval	A			
ICE	14-16	Apportionments				14-04
ICE	14-17	Completeness of the Lease Footnote Disclosure and Timely Capitalization of Leasehold Improvements				14-05

¹Disposition Legend:

IAR Independent Auditors' Report dated November 13, 2014

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 Financial Systems Functionality

C Property, Plant, and Equipment

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D	Budgetary Accounting
E	Entity-Level Controls
F	Grants Management
G	Custodial Revenue and Drawback
H	<i>Federal Managers' Financial Integrity Act of 1982 (FMFIA)</i>
I	<i>Single Audit Act Amendments of 1996</i>
J	<i>Antideficiency Act, as amended (ADA)</i>
K	<i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i>



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Appendix A
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