

**OFFICE OF INSPECTOR GENERAL**

**United States Immigration and  
Customs Enforcement's  
Management Letter for DHS'  
FY 2015 Financial Statements  
Audit**



Homeland  
Security

**May 3, 2016**  
**OIG-16-80**



# DHS OIG HIGHLIGHTS

## *United States Immigration and Customs Enforcement's Management Letter for DHS' FY 2015 Financial Statements Audit*

May 3, 2016

### **Why We Did This Audit**

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.

#### **For Further Information:**

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

### **What We Found**

KPMG LLP, under contract with the DHS Office of Inspector General, audited the United States Immigration and Customs Enforcement's financial statements and internal control over financial reporting for fiscal year (FY) 2015. The resulting management letter contains eight observations related to internal controls and other operational matters for management's consideration. KPMG LLP noted internal control deficiencies and the need for improvement in several processes, including monitoring of certain account balances; accounts payable analysis; undelivered order analysis; and the recording and liquidation of operating expenses. These deficiencies are not considered significant and were not required to be reported in the *Independent Auditors' Report on DHS' FY 2015 Financial Statements and Internal Control over Financial Reporting*, dated November 13, 2015, included in the DHS FY 2015 *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](http://www.oig.dhs.gov)

MAY 3 2016

MEMORANDUM FOR: Jonathan 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 2015  
Financial Statements Audit*

Attached for your information is our final report, *United States Immigration and Customs Enforcement's Management Letter for DHS' FY 2015 Financial Statements Audit*. This report contains eight observations related to internal control deficiencies that were not required to be reported in our *Independent Auditors' Report on DHS' FY 2015 Financial Statements and Internal Control over Financial Reporting*, dated November 13, 2015, which was included in the Department of Homeland Security's (DHS) fiscal year (FY) 2015 *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 2015 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 18, 2015

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:

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, 2015, in accordance with auditing standards generally accepted in the United States of America and *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 financial statements. In conjunction with our audit of the general purpose 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 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. The disposition of each internal control deficiency identified during our FY 2015 audits – 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, 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 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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September 30, 2015

**TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)**

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**APPENDIX**

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**FMC 15-01 – Non-GAAP (Generally Accepted Accounting Principles) Analysis (NFR No. ICE 15-02)**

Controls were not designed to verify the completeness of ICE’s non-GAAP analysis prior to submission to DHS Office of Financial Management. Specifically, we noted that there was one non-GAAP policy that was not included on the March 31, 2015 ICE non-GAAP analysis. This policy was identified by management as a result of a request from the auditors.

*Recommendation:*

We recommend that ICE review its policies, procedures and surveys around non-GAAP to ensure completeness in capturing non-compliant processes.

**FMC 15-02 – Apportioned and Unapportioned Balances (NFR No. ICE 15-03)**

ICE did not fully implement controls to monitor balances as apportioned and unapportioned in the financial statements and to ensure adjustments were identified and recorded timely.

*Recommendation:*

We recommend the ICE Office of Budget and Program Performance and Office of Financial Management finalize and document the new apportionment process implemented in the third quarter of FY 2015, and include monitoring and escalation procedures to ensure all funds that should be apportioned are apportioned timely.

**FMC 15-03 – Accounts Payable Look-Back Analysis (NFR No. ICE 15-05)**

Controls were not properly designed to ensure items identified as outliers and anomalies when performing the look-back analysis were contemplated and incorporated into the calculation of the subsequent period’s accrual. Specifically, we noted that management identified two large payments in April and May which were related to one-time payments made for services received from the Department of Veterans affairs. ICE conducted further research and determined that these payments were related to IPACs that covered the entire fiscal year; however no adjustment was made to the accrual methodology for the calculation of the future period’s accounts payable methodology based on the identification of these payments.

Additionally we noted that management had not identified and tested controls to ensure the completeness of the information included in the system generated report used in the performance of this control.

*Recommendation:*

We recommend that ICE implement further controls in the process to validate the completeness of the information produced and further document the actions required for anomalies of payments.

**FMC 15-04 – Entity-Level Controls – OGE-450 Form: Confidential Financial Disclosure Report (NFR No. ICE 15-08)**

Controls were not fully effective to ensure all individuals required to file a confidential financial disclosure report (Office of Government Ethics (OGE) Form 450 or OGE-450) were transitioned to the new automated system upon implementation. Specifically, out of 45 samples, we noted one instance

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where the Ethics Office did not include one filer's office during its initial data collection process, which resulted in the individual filing after February 15, 2015.

Policies, procedures and controls were not fully implemented to ensure all OGE-450 forms for new employees were initially filed no later than 30 days. Specifically, out of 45 sampled annual and new entrant OGE-450 filers:

- One new entrant report did not file within 30 days due to administrative error.
- One report was not certified within 60 days due to delay in supervisory review.

*Recommendations:*

The ICE Ethics Office should continue to commit to provide equal focus on annual and new entrant filers by using the notification process included in the ICE Ethics Office OGE-450 standard operating procedures.

The ICE Ethics Office should also continue to provide reminder notifications in response to delayed supervisory review and escalate delinquent reviewing supervisors to chiefs of staff for assistance as required by the ICE Ethics Office OGE-450 standard operating procedures.

**FMC 15-05 – Entity-Level Controls – Performance Reviews (NFR No. ICE 15-09)**

Controls were not operating effectively to ensure Performance Appraisal Forms were reviewed and approved. Specifically, in our review of the Performance Appraisal Forms for 15 employees, we identified three instances in which the final Performance Appraisal Forms were not reviewed and approved by the reviewing official.

*Recommendations:*

ICE should issue communication, 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. In addition, the Office of Human Capital should remind each headquarters 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 15-06 – Real Property Management System (RPMS) Information Produced by the Entity (NFR No. ICE 15-10)**

Due to RPMS account management general information technology control weaknesses, we were unable to conclude on the operating effectiveness of RPMS general information technology controls. Management utilizes two reports from this system in the performance of manual controls.

The Rent Bill Verification and Validation relies on the General Services Administration Rent Projections Report from RPMS as a source for the reconciliation. If this report is not complete and accurate, items requiring reconciliation may not be identified.

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The leasehold improvement sub-ledger to general ledger reconciliation uses the Leasehold Improvement Report from RPMS as the source document for the leasehold improvement sub-ledger and the source document for recording additions and deletions in the general ledger. If all the information contained in RPMS is not captured and reflected on the system generated report then information presented in the general ledger may not be complete and items requiring reconciliation may not be identified.

*Recommendations:*

ICE should improve controls for granting access to RPMS users and implement an annual recertification to ensure the operating effectiveness of general information technology controls. ICE should also assess the completeness of the reports provided from RPMS.

**FMC 15-07 – Undelivered Orders Analysis (NFR No. ICE 15-14)**

Controls were not fully effective to ensure that there is clear documentation readily available to support the status assigned to obligations on the undelivered orders analysis template. Specifically, we noted a contract that had an expired period of performance and no fiscal year 2015 activity that was assigned a status 1; however, there was no clear and concise documentation available to support the status included in the undelivered orders analysis. Additionally, upon further inquiry it was determined that this contract was currently under Defense Contract Audit Agency audit and per the DHS Component Requirements Guide, in this instance, strong supporting documentation is required.

*Recommendation:*

ICE should work closely with the programs to ensure proper documentation is available to support open obligation balances.

**FMC 15-08 – Operating Expenses (NFR No. ICE 15-16)**

Controls were not operating effectively to ensure advances were recorded and liquidated in the proper period. Specifically, we noted one instance in which an advance should have been recorded in previous fiscal years and was incorrectly liquidated in FY 2015 resulting in an overstatement to operating expenses.

Controls were not operating effectively to ensure that prepaid assets were properly recorded in the general ledger. Specifically, we noted one instance in which vehicles that had been purchased but not received were recorded as operating expenses instead of prepaid assets resulting in an overstatement to operating expenses and an understatement to prepaid assets.

*Recommendation:*

ICE should take steps to ensure that advances are processed correctly and enforce proper procedures for receipt of vehicles in the financial system.

Immigration and Customs Enforcement  
 Crosswalk – Financial Management Comments to Active NFRs  
 September 30, 2015

Component	NFR No.	Description	Disposition			
			IAR			FMC
			MW	SD	NC	No.
ICE	15-01	Intra-Departmental Reconciliation	A			
ICE	15-02	Non-GAAP Analysis				15-01
ICE	15-03	Apportioned and Unapportioned Balances				15-02
ICE	15-04	Fund Balance with Treasury Cash Adjustments	A			
ICE	15-05	Accounts Payable Look-Back Analysis				15-03
ICE	15-06	Miscellaneous Non-Contract Undelivered Orders		D		
ICE	15-07	Intra-Governmental Payment and Collection Expense Approval	A			
ICE	15-08	Entity-Level Controls – OGE-450 Form: Confidential Financial Disclosure Report				15-04
ICE	15-09	Entity-Level Controls – Performance Reviews				15-05
ICE	15-10	Real Property Management System Information Produced by the Entity				15-06
ICE	15-11	PRISM Information Produced by the Entity		D		
ICE	15-12	Journal Entry Review and Approval	A			
ICE	15-13	Antideficiency Act			J	
ICE	15-14	Undelivered Orders Analysis				15-07
ICE	15-15	Funds Management and Untimely Recording of obligation activity to the general ledger		D		
ICE	15-16	Operating Expenses				15-08

<sup>1</sup>Disposition Legend:

IAR Independent Auditors' Report dated November 13, 2015

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 System Functionality

C Property, Plant, and Equipment

D Budgetary Accounting

E Entity-Level Controls

F Grants Management

G Custodial Revenue and Refunds and Drawback

H Federal Managers' Financial Integrity Act of 1982 (FMFIA)

I Single Audit Act Amendments of 1996

J Antideficiency Act, as amended (ADA)

K Federal Financial Management Improvement Act of 1996 (FFMIA)



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

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**Appendix B**  
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