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Department of Homeland Security
OFFICE OF INSPECTOR GENERAL

5 2003-2008
YEAR ANNIVERSARY
ONE TEAM, ONE MISSION: SECURING THE HOMELAND



**SEMIANNUAL
REPORT TO
THE CONGRESS**

October 1, 2007 - March 31, 2008

Statistical Highlights of OIG Activities

October 1, 2007 – March 31, 2008

DOLLAR IMPACT

| | |
|--|---------------|
| Questioned Costs | \$112,708,862 |
| Funds Put to Better Use | \$0 |
| Management Agreement That Funds Be: | |
| Recovered | \$2,749,498 |
| Deobligated | \$13,500,000 |
| Funds Recovered | \$35,701,839 |
| Fines and Restitutions | \$8,272,213 |
| Administrative Cost Savings and Investigative Recoveries | \$20,657,451 |

ACTIVITIES

| | |
|---|-------|
| Management Reports Issued | 34 |
| Financial Assistance Grant Audit Reports | 9 |
| Investigation Reports Issued | 423 |
| Single Audit Reports Processed | 12 |
| Defense Contract Audit Agency Reports Processed | 28 |
| Investigations Initiated | 390 |
| Investigations Closed | 436 |
| Open Investigations | 1,766 |
| Investigations Referred for Prosecution | 124 |
| Investigations Accepted for Prosecution | 104 |
| Investigations Declined for Prosecution | 34 |
| Arrests | 247 |
| Indictments | 276 |
| Convictions | 259 |
| Personnel Actions | 19 |
| Complaints Received (other than Hotline) | 5,198 |
| Hotline Complaints Received | 3,713 |
| Complaints Referred (to programs or other agencies) | 6,414 |
| Complaints Closed | 8,172 |

Office of Inspector General

U.S. Department of Homeland Security
Washington, DC 20528



Homeland
Security

May 1, 2008

The Honorable Michael Chertoff
Secretary
U.S. Department of Homeland Security
Washington, D.C. 20528

Dear Mr. Secretary:

On March 3, 2008, our office along with the Department of Homeland Security (DHS), celebrated the 5th anniversary of the founding of DHS. Over the past five years, we have remained steadfast in our focus and commitment in helping the department to achieve its mission in securing America by preventing and deterring terrorist attacks, and protecting against and responding to threats and hazards to the Nation. While I am extremely proud of the leadership and direction we have provided the department, I am equally proud of the organization that we have built here.

I am pleased to present our semiannual report, which summarizes the activities and accomplishments of DHS Office of Inspector General for the six-month period ended March 31, 2008.

During this reporting period, our office published 34 management reports, 9 financial assistance grant reports, and 40 reports on DHS programs that were issued by other organizations. DHS managers concurred with approximately 93% of the recommendations contained in those reports. As a result of our efforts, \$112,708,862 of questioned costs was identified, of which \$81,387,077 was determined to be unsupported. Also during this period, we recovered \$35,701,839 as a result of disallowed costs indentified in our prior year reports.

In the investigative area, we issued 423 reports and closed 436 investigations. Our investigations resulted in 247 arrests, 276 indictments, 259 convictions, and 19 personnel actions. Additionally, investigative recoveries, fines, restitutions, and cost savings totaled \$28,929,664.

I would like to take this opportunity to thank you for the interest and support that you have provided to our office. We look forward to working closely with you, your leadership team, and Congress toward the goal of promoting economy, efficiency, and effectiveness in DHS programs and operations, as well as helping the department accomplish its critical mission in the challenging months ahead.

Sincerely,

A handwritten signature in black ink that reads "Richard L. Skinner".

Richard L. Skinner
Inspector General

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Working Relationship Principles For Agencies and Offices of Inspector General

The *Inspector General Act* establishes for most agencies an Office of Inspector General (OIG) and sets out its mission, responsibilities, and authority. The Inspector General is under the general supervision of the agency head. The unique nature of the Inspector General function can present a number of challenges for establishing and maintaining effective working relationships. The following working relationship principles provide some guidance for agencies and OIGs.

To work most effectively together, the agency and its OIG need to clearly define what the two consider to be a productive relationship and then consciously manage toward that goal in an atmosphere of mutual respect.

By providing objective information to promote government management, decision-making, and accountability, the OIG contributes to the agency's success. The OIG is an agent of positive change, focusing on eliminating waste, fraud, and abuse, and on identifying problems and recommendations for corrective actions by agency leadership. The OIG provides the agency and Congress with objective assessments of opportunities to be more successful. The OIG, although not under the direct supervision of senior agency management, must keep them and the Congress fully and currently informed of significant OIG activities. Given the complexity of management and policy issues, the OIG and the agency may sometimes disagree on the extent of a problem and the need for and scope of corrective action. However, such disagreements should not cause the relationship between the OIG and the agency to become unproductive.

To work together most effectively, the OIG and the agency should strive to:

Foster open communications at all levels.

The agency will promptly respond to the OIG requests for information to facilitate OIG activities and acknowledge challenges that the OIG can help address. Surprises are to be avoided. With very limited exceptions primarily related to investigations, the OIG should keep the agency advised of its work and its findings on a timely basis, and strive to provide

information helpful to the agency at the earliest possible stage.

Interact with professionalism and mutual respect. Each party should always act in good faith and presume the same from the other. Both parties share as a common goal—the successful accomplishment of the agency's mission.

Recognize and respect the mission and priorities of the agency and the OIG. The agency should recognize the OIG's independent role in carrying out its mission within the agency, while recognizing the responsibility of the OIG to report both to the Congress and to the agency Head. The OIG should work to carry out its functions with a minimum of disruption to the primary work of the agency. The agency should allow the OIG timely access to agency records and other materials.

Be thorough, objective, and fair. The OIG must perform its work thoroughly, objectively, and with consideration to the agency's point of view. When responding, the agency will objectively consider differing opinions and means of improving operations. Both sides will recognize successes in addressing management challenges.

Be engaged. The OIG and agency management will work cooperatively in identifying the most important areas for OIG work, as well as the best means of addressing the results of that work, while maintaining the OIG's statutory independence of operation. In addition, agencies need to recognize that the OIG also will need to carry out work that is self-initiated, congressionally requested, or mandated by law.

Be knowledgeable. The OIG will continually strive to keep abreast of agency programs and operations, and agency management will be kept informed of OIG activities and concerns being raised in the course of OIG work. Agencies will help ensure that the OIG is kept up to date on current matters and events.

Provide feedback. The agency and the OIG should implement mechanisms, both formal and informal, to ensure prompt and regular feedback.

Executive Summary

This is the 11th semiannual report to Congress issued by the Department of Homeland Security (DHS) Office of Inspector General since its establishment in January 2003. It is issued pursuant to the provisions of Section 5 of the *Inspector General Act* of 1978, as amended, and covers the period from October 1, 2007 to March 31, 2008.

During this reporting period, we completed significant audit, inspection, and investigative work to promote the economy, efficiency, effectiveness, and integrity of the department's programs and operations. Specifically, we issued 34 management reports (Appendix 3), 9 financial assistance grant reports (Appendix 4), and 423 investigative reports. We also processed 40 reports on department programs: 28 audits issued by the Defense Contract Audit Agency (DCAA) and 12 single audits issued by other organizations according to the *Single Audit Act of 1984*, as amended (Appendix 4). Our reports provide the department Secretary and Congress with an objective assessment of the issues, while at the same time provide specific recommendations to correct deficiencies and improve the economy, efficiency, and effectiveness of the respective program.

During this reporting period, our audits resulted in questioned costs of \$112,708,862 of which \$81,387,077 was determined to be unsupported costs. We also recovered \$35,701,839 as a result of disallowed costs identified from prior audits. In the investigative area, we closed 436 investigations. Our investigations resulted in 247 arrests, 276 indictments, 259 convictions, and 19 personnel actions. Additionally, investigative recoveries, fines, restitutions, and cost savings totaled \$28,929,664.

We have a dual reporting responsibility to Congress as well as to the DHS Secretary. During the reporting period, we continued our active engagement with Congress through extensive meetings, briefings, and dialogues. Congressional authorizing and appropriation committees and subcommittees met to discuss a range of issues relating to our work and that of DHS. We also testified before Congress on two occasions during this reporting period concerning the department's major management challenges and Federal Emergency Management Agency (FEMA) hurricane recovery efforts. Testimony prepared for these hearings may be accessed through our Website at www.dhs.gov/oig.

Department of Homeland Security Profile

On November 25, 2002, President Bush signed the *Homeland Security Act of 2002* (PL 107-296, as amended), officially establishing the Department of Homeland Security (DHS) with the primary mission of protecting the American homeland. On January 24, 2003, DHS became operational. Formulation of DHS took a major step forward on March 1, 2003, when, according to the President's reorganization plan, 22 agencies and approximately 181,000 employees were transferred to the new department.

DHS' first priority is to protect the Nation against further terrorist attacks. Component agencies analyze threats and intelligence, guard U.S. borders and airports, protect America's critical infrastructure, and coordinate U.S. preparedness for and response to national emergencies.

DHS has been reorganized into the following directorates:

- Management
- National Protection and Programs
- Science and Technology

Other critical components of DHS include:

- Domestic Nuclear Detection Office
- Federal Emergency Management Agency
- Federal Law Enforcement Training Center
- Office of Civil Rights and Civil Liberties
- Office of Health Affairs
- Office of Inspector General
- Office of Intelligence and Analysis
- Office of Operations Coordination
- Office of Policy
- Transportation Security Administration
- United States Citizenship and Immigration Services
- United States Coast Guard
- United States Customs and Border Protection
- United States Immigration and Customs Enforcement
- United States Secret Service

Office of Inspector General Profile

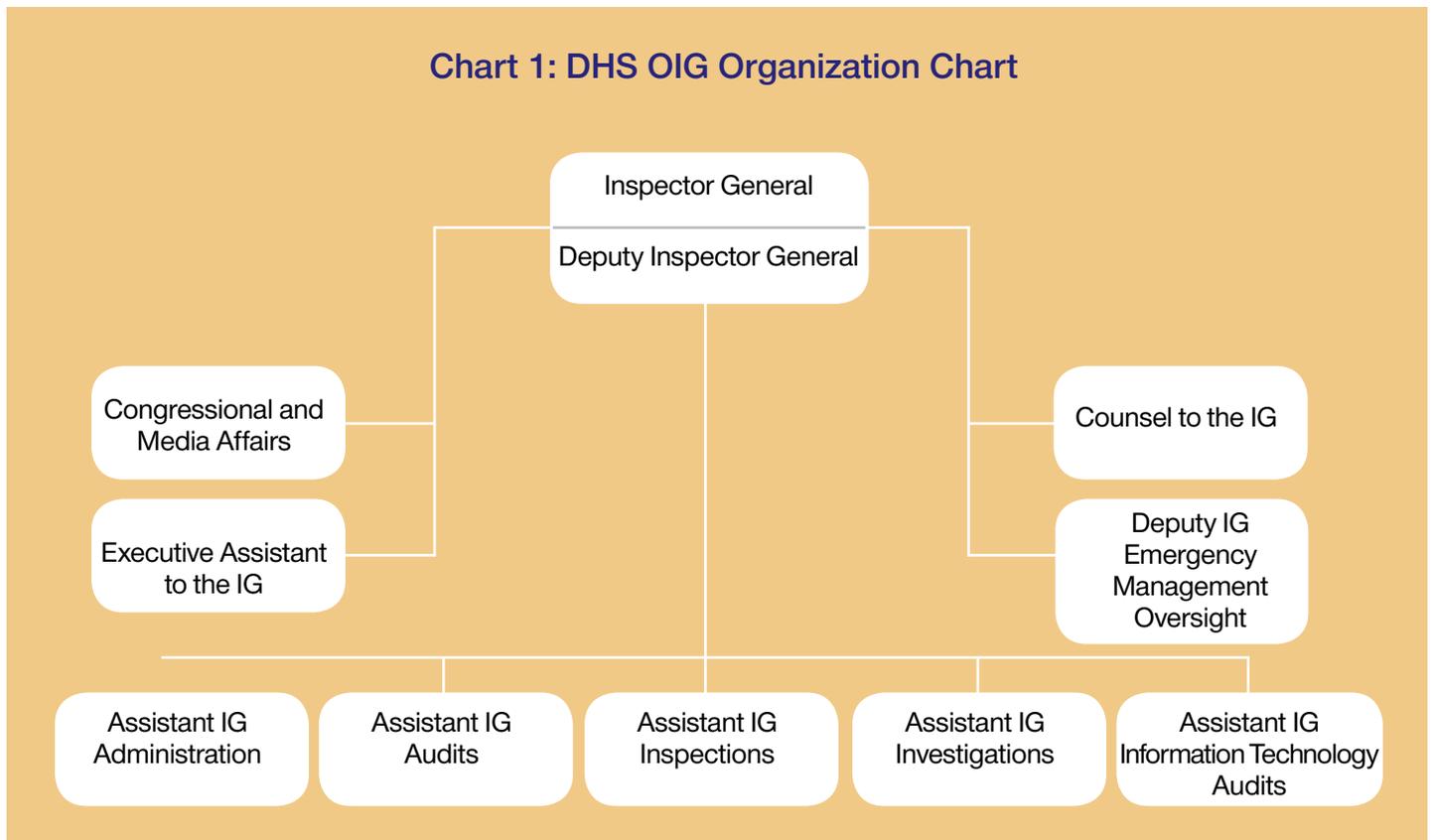
The *Homeland Security Act of 2002* provided for the establishment of an Office of Inspector General (OIG) in DHS by amendment to the *Inspector General Act of 1978* (5 USC App. 3, as amended). By this action, Congress and the administration ensured independent and objective audits, inspections, and investigations of the operations of the department.

The Inspector General is appointed by the President, subject to confirmation by the Senate, and reports directly to the Secretary of DHS and to Congress. *The Inspector General Act* ensures the

Inspector General’s independence. This independence enhances our ability to prevent and detect fraud, waste, and abuse as well as to provide objective and credible reports to the Secretary and Congress regarding the economy, efficiency, and effectiveness of DHS’ programs and operations.

We were authorized 552 full-time employees during the reporting period. We are composed of eight functional components and are based in the District of Columbia. We have field offices throughout the country. Chart 1 illustrates our management team.

Chart 1: DHS OIG Organization Chart





The OIG consists of the Executive Office and eight functional components:

The Executive Office consists of the Inspector General (IG), the Deputy IG, an executive assistant, and support staff. It provides executive leadership to the OIG.

The Office of Counsel to the Inspector General provides legal advice to the IG and other management officials. The office supports audits, inspections, special reviews, and investigations by ensuring that applicable laws and regulations are followed. It is the OIG's designated ethics office. In addition, the office manages the OIG's *Freedom of Information Act* and *Privacy Act* responsibilities; furnishes attorney services for the issuance and enforcement of OIG subpoenas; and provides legal advice on OIG operations.

The Office of Congressional and Media Affairs serves as primary liaison to members of Congress and their staffs, the White House and Executive Branch, and to other federal agencies and governmental entities involved in securing the Nation. The office's staff responds to inquiries from Congress and the White House; notifies Congress about OIG initiatives, policies, and programs; and informs other governmental entities about OIG measures that affect their operations and activities. It also provides advice to the IG and supports OIG staff as they address congressional and White House inquiries.

The Office of Audits (OA) conducts and coordinates audits and program evaluations of the management and financial operations of the Department of Homeland Security (DHS). Auditors examine the methods employed by agencies, bureaus, grantees, and contractors in carrying out essential programs or activities. Audits evaluate whether established goals and objectives are achieved and resources are used economically and efficiently. This office also assesses whether intended and realized results are consistent with laws, regulations, and good business practice; and determine whether financial accountability is achieved and the financial statements are not materially misstated.

The Office of Emergency Management Oversight (EMO) provides an aggressive and ongoing audit and investigative effort designed to ensure that disaster relief funds are spent appropriately, while identifying fraud, waste, and abuse as early as possible. The office focus is the department's disaster operations, and it is weighted heavily toward prevention, including reviewing internal controls, and monitoring and advising DHS and the Federal Emergency Management Agency (FEMA) officials on contracts, grants, and purchase transactions before they are approved. This allows the office to stay current on all disaster relief operations and provide on-the-spot advice on internal controls and precedent-setting decisions. A portion of FEMA's full-time and temporary employees are dedicated to gulf coast hurricane recovery.

The Office of Information Technology Audits (IT-A) conducts audits and evaluations of DHS' information management, cyber infrastructure, and systems integration activities. The office reviews the cost effectiveness of acquisitions, implementation, and management of major systems, and telecommunications networks across DHS. In addition, it evaluates the systems and related architectures of DHS to ensure they are effective, efficient, and implemented according to applicable policies, standards, and procedures. The office also assesses DHS' information security program as mandated by the *Federal Information Security Management Act*. In addition, this office provides technical forensics assistance to OIG offices in support of OIG's fraud prevention and detection program.

The Office of Inspections (ISP) provides the IG with a means to analyze programs quickly and to evaluate operational efficiency and vulnerability. This work includes special reviews of sensitive issues that arise suddenly and congressional requests for studies that require immediate attention. Inspectors may examine any area of the department. In addition, the office is the lead OIG unit for reporting on DHS intelligence, international affairs, civil rights and civil liberties, and science and technology. Inspectors use a variety of study methods and evaluation techniques to develop recommendations for the department.

The Office of Investigations conducts investigations into allegations of criminal, civil, and administrative misconduct involving DHS employees, contractors, and grantees. This office examines specific allegations, reports, or other information indicating possible violations of laws or regulations. Additionally, it monitors the investigative activity of DHS' various internal affairs offices. This office also has staff assigned to the Office of Emergency Management Oversight to work on gulf coast hurricane recovery operations.

The Office of Administration provides critical administrative support functions, including OIG strategic planning development, and implementation of administrative directives. The office also supports the OIG's information and office automation systems; budget formulation and execution; correspondence; printing and distribution of OIG reports; and oversight of the personnel, procurement, travel, and accounting services provided to the OIG on a reimbursable basis by the Bureau of Public Debt.

SUMMARY OF SIGNIFICANT OIG ACTIVITY



DIRECTORATE FOR MANAGEMENT

MANAGEMENT REPORTS

Progress Has Been Made But More Work Remains in Meeting Homeland Security Presidential Directive 12 Requirements

We determined that the department has taken actions to implement requirements of Homeland Security Presidential Directive 12 (HSPD-12). For example, DHS established a Program Management Office to provide guidance and logistic support to implement HSPD-12 at its headquarters and components; developed an implementation plan with procedures to enroll applicants and issue credentials; prepared a privacy impact assessment providing details about personally identifiable information collected for issuing credentials; and established an HSPD-12 Council to facilitate the implementation of HSPD-12 throughout the department. However, DHS is experiencing delays in implementing a technical solution and issuing compliant HSPD-12 cards to its employees and contractors. Finally, DHS had not assessed the total cost to implement HSPD-12.

Our recommendations included addressing the need for the Program Management Office to evaluate its implementation plan to avoid further delays; develop department-wide HSPD-12 cost estimates; identify facilities access points and information systems where cards will be required; ensure the proper accreditation of Personal Identity Verification processes and reaccredit the headquarters Personal Identity Verification Card Issuer services; and certify and accredit information systems used for implementation of HSPD-12 requirements.

(OIG-08-01, October 2007, IT-A)

http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_08-01_Oct07.pdf

Major Management Challenges Facing the Department of Homeland Security (Excerpts from the FY 2007 DHS Annual Financial Report)

Since its inception in 2003, DHS has worked to accomplish the largest reorganization of the federal government in more than half a century. This task includes creating the third largest Cabinet agency with the missions of protecting the country against terrorist attack, responding to threats and hazards, ensuring safe and secure borders, welcoming lawful immigrants and visitors, and promoting the free flow of commerce. It has presented many challenges to its managers and employees. While DHS has made progress, it still has much to do to establish a cohesive, efficient, and effective organization. The major management challenges facing DHS are:

- Catastrophic Disaster Response and Recovery
- Acquisition Management
- Grants Management
- Financial Management
- Information Technology Management
- Infrastructure Protection
- Border Security
- Transportation Security
- Trade Operations and Security

(OIG-08-11, January 2008, OA)

http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_08-11_Jan08.pdf



A CBP Border Patrol Agent screens one of a stream of tractor trailers passing through the Falfurrias, Texas, checkpoint.

We determined that the department has taken actions to implement requirements of Homeland Security Presidential Directive 12 (HSPD-12).

Letter Report: DHS Needs to Prioritize Its Cyber Assets (Redacted Version)

We evaluated the overall effectiveness of the department's efforts to comply with Homeland Security Presidential Directive 7 (HSPD-7), Critical Infrastructure Identification, Protection, and Prioritization. Specifically, we addressed DHS' progress in identifying and prioritizing its internal cyber critical infrastructure. We determined that DHS could strengthen these internal HSPD-7 efforts. We recommended that DHS (1) assign responsibility and provide the necessary resources to determine protection priorities for internal cyber critical infrastructure and (2) establish a process to coordinate the internal cyber critical infrastructure protection activities of the Management Directorate offices. The Undersecretary for Management concurred with our recommendations and is addressing the findings.

(OIG-08-31, March 2008, IT-A)

http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_08-31_Mar08.pdf

Independent Auditors' Report on DHS' FY 2007 Financial Statements

KPMG LLP was unable to express an opinion on the department's balance sheet as of September 30, 2007 and 2006, and on the related statements of custodial activity for the years then ended. This was due to DHS' inability to represent that certain financial statement balances were correct and to provide sufficient evidence to support its financial statements. DHS' internal controls over financial reporting and compliance with certain provisions of laws and regulations were considered as part of this audit. The FY 2007 Independent Auditors' Report resulting from these collective efforts discusses seven material weaknesses, one other significant deficiency in internal control, and eight instances of noncompliance with laws and regulations.

(OIG-08-12, November 2007, OA)

http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_08-12_Nov07.pdf

FY 2007 Audit of DHS' Internal Control Over Financial Reporting

The report addresses the effectiveness of DHS' internal control over financial reporting as of September 30, 2007. We performed this review concurrently with the DHS FY 2007 financial statements audit, based on efforts by the independent public accountant, KPMG LLP. The FY 2007 DHS financial statements audit identified the following material weaknesses in internal control:

- Financial Management and Entity-level Controls
- Financial Reporting
- Financial Systems Security
- Fund Balance with Treasury
- Capital Assets and Supplies
- Actuarial and Other Liabilities
- Budgetary Accounting

Because of the effects of the material weaknesses above, it is our opinion that DHS' internal control did not provide reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements or to stewardship information would be prevented or detected in a timely basis.

(OIG-08-13, November 2007, OA)

http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_08-13_Nov07.pdf

Independent Auditor's Report on DHS' FY 2007 Special-Purpose Financial Statements

KPMG LLP, under a contract with DHS OIG, was unable to express an opinion on DHS' Special-Purpose Financial Statements as of September 30, 2007 and 2006. The disclaimer of opinion was due in part to a number of internal control weaknesses that KPMG LLP identified at the department. For example, some DHS components were unable to provide sufficient evidential matter or make knowledgeable representations of facts and circumstances, which support transactions and account balances, as presented in the DHS balance sheets at September 30, 2007 and 2006. Additionally, DHS management was unable to provide the auditors with appropriate representa-

tions as to compliance with United States generally accepted accounting principles, with respect to the special-purpose financial statements as of September 30, 2007 and 2006. Consequently, the auditors were unable to determine the effects of the lack of such representations on the special-purpose financial statements.

(OIG-08-17, November 2007, OA)

http://www.dhs.gov/xoig/assets/mgmtrpts/OIG_08-17_Nov07.pdf

DOMESTIC NUCLEAR DETECTION OFFICE

MANAGEMENT REPORTS

DHS' Domestic Nuclear Detection Office Progress in Integrating Detection Capabilities and Response Protocols

The Domestic Nuclear Detection Office (DNDO) coordinates, develops, and delivers radiological and nuclear detection programs and training to federal, state, and local partners. DNDO is working to expand and improve the ability to detect the threat of a radiological or nuclear attack. The office also has made progress in developing a multilayered system of detection technologies, programs, and guidelines designed to enhance detection capabilities. Further, the DNDO, in conjunction with the Federal Emergency Management Agency's (FEMA's) Office of Grant Programs, also collaborates with state and local officials.

We recommended that the Domestic Nuclear Detection Office negotiate and execute a memorandum of agreement with the FEMA's Office of Grant Programs that defines funding responsibilities of each office for preventive radiological and nuclear training courses. The Domestic Nuclear Detection Office is taking steps to implement this recommendation.

(OIG-08-19, December 2007, ISP)

http://www.dhs.gov/xoig/assets/mgmtrpts/OIG_08-19_Dec07.pdf

FEDERAL EMERGENCY MANAGEMENT AGENCY



San Diego, CA, October 25, 2007— Helicopters drop water and retardant on the Harris Fire, near the Mexican border, to stop the wildfire from advancing. Currently the fires in Southern California have burned nearly 350,000 acres.

Photographer: Andrea Booher/FEMA

MANAGEMENT REPORTS

A Review of the World Trade Center Captive Insurance Company

After the September 11, 2001, collapse of the World Trade Center towers, city agencies and private contractors began recovery efforts. However, the potential for unknown liabilities left the city and its contractors without sufficient insurance for workers who remove debris, because insurance markets were averse to the risks of providing coverage. Congress responded with Public Law 108-7, directing FEMA to provide up to \$1 billion to create the World Trade Center (WTC) Captive Insurance Company (Captive). The Captive consolidated and funded the legal defense for the city and insured contractors against thousands of lawsuits alleging that inadequate safety measures resulted in health problems for those who worked at the WTC site.

We assessed the nature of the Captive's expenses and income, and verified that it had developed a process to handle the claims submitted. The Captive's involvement in litigation is consistent with its foundational documents. Agreements among FEMA, New York State, New York City, and the Captive allow for payment of legal fees to defend insured parties. The Captive is also permitted to invest its funds, earning interest that

has exceeded its costs as of June 2007. Our report contains five recommendations to enhance monitoring of procurement processes and financial reporting. (OIG-08-21, January 2008, ISP)
http://www.dhs.gov/xoig/rpts/mgmt/editorial_0334.shtm

Improved Administration Can Enhance Federal Emergency Management Agency Classified Laptop Computer Security (Unclassified Summary)

We audited the DHS and its organizational components' security programs to evaluate the security and integrity of select government-issued laptop computers. We assessed the strengths and weaknesses of security controls over FEMA classified laptop computers. We determined whether FEMA had established and implemented adequate and effective security policies and procedures related to the physical security of and logical access to its classified government-issued laptop computers. To secure FEMA data stored on classified government-issued laptop computers, we made six recommendations to the Administrator for FEMA.

(OIG-08-14, November 2007, IT-A)
http://www.dhs.gov/xoig/assets/mgmt/rpts/OIG_08-14_Nov07.pdf

FEMA's Use of Proceeds From the Sales of Emergency Housing Units

During 2005 and 2006, FEMA used proceeds from the sales of used travel trailers and mobile homes to partially finance the operations of a number of Emergency Housing Unit sites in seven states. More than \$13.5 million was used for ineligible expenditures under General Services Administration regulations on the use of sales proceeds. These expenditures included (1) contracts to support and equip storage sites, (2) various purchases processed through purchase card accounts, and (3) travel expenses.

We recommended that FEMA establish internal controls and adequately manage the exchange or sale program in the future, and to return to the U.S. Treasury all funds that were inappropriately spent. (OIG-08-23, February 2008, EMO)
http://www.dhs.gov/xoig/assets/mgmt/rpts/OIG_08-23_Feb08.pdf

FEMA used proceeds from the sales of used travel trailers and mobile homes to partially finance the operations of a number of Emergency Housing Unit sites in seven states.



Delzura, CA., December 5, 2007—The electricians are hooking up electricity to serve a family that will temporarily live in the FEMA-provided mobile home while they begin to rebuild. The family lost their home during the wildfires in October.

FEMA's Preparedness for the Next Catastrophic Disaster

At the request of Congress, our office identified nine key areas that are critical for preparing for a catastrophic disaster and assessed the progress FEMA has made in these key areas since Hurricane Katrina struck in August 2005. Overall, FEMA has made moderate progress in five of the nine key areas (Overall Planning, Coordination and Support, Interoperable Communications, Logistics, and Acquisition Management), modest progress in three areas (Evacuations, Housing, and Disaster Workforce), and limited progress in one area (Mission Assignments). FEMA's challenges included budget shortfalls, reorganizations, inadequate information technology systems, and confusing or limited authorities.

To ensure continued progress in addressing these areas, we recommended that FEMA (1) conduct a comprehensive “needs analysis” to determine where they are now and where they need to be, as an agency, in terms of preparedness for a catastrophic disaster; (2) develop and sustain a system for tracking progress of programs, initiatives, and enhancements; and (3) provide regular updates regarding progress on all major preparedness initiatives and projects.

(OIG-08-34, March 2008, EMO)

http://www.dhs.gov/xoig/assets/mgmtrpts/OIG_08-34_Mar08.pdf

DISASTER GRANTS

We issued six financial assistance grant reports. The majority of the reports related to presidentially declared disasters. We questioned \$1,063,813 in costs of which \$377,136 was unsupported. An itemized list of these reports, including questioned costs and unsupported costs, is provided in Appendix 4.

Hurricane Katrina Activities for City of Pascagoula, Mississippi (FEMA Disaster 1604-DR-MS)

The city of Pascagoula, Mississippi, received an award of \$7.7 million from the Mississippi Emergency Management Agency, a FEMA grantee, for emergency protective measures and debris removal activities resulting from Hurricane Katrina. We reviewed \$3.5 million of costs for 11 large projects. Our review identified questioned costs of \$725,237 resulting from ineligible regular-time labor and excessive contract charges. Prior to issuance of the report, FEMA disallowed \$681,486 of the questioned costs. Therefore, we recommended that the Director, Mississippi Transitional Recovery Office, in coordination with the grantee, disallow the remaining \$43,751 of questioned costs.

(DA-08-02, November 2007, EMO)

http://www.dhs.gov/xoig/assets/audittrpts/OIG_DA-08-02_Nov07.pdf



Tornadoes are dangerous, funnel-shaped storms that cause destruction when they come down to the ground. The winds in a tornado can be as high as 200 miles per hour—which is about three times as fast as a car on the freeway.

We questioned \$1,063,813

in disaster costs.

Southern Pine Electric Power Association (FEMA Disaster 1604-DR-MS)

The Southern Pine Electric Power Association (the Association) in Taylorsville, Mississippi, received an award of \$19.4 million from the Mississippi Emergency Management Agency, a FEMA grantee, for emergency protective measures and debris removal resulting from Hurricane Katrina. We reviewed \$2.2 million of costs claimed for material and equipment. The Association’s grant accounting system did not accurately reflect costs claimed for debris removal activities. Also, the Association’s claim for material and equipment use was overstated by \$1,055,606. Prior to issuance of the report, FEMA disallowed the \$1,055,606 of questioned costs. Therefore, we recommended that the Director, Mississippi Transitional Recovery Office, in conjunction with the grantee, notify the Association that future reimbursements for FEMA-funded activities must be adequately supported within its accounting system.

(DA-08-04, February 2008, EMO)

http://www.dhs.gov/xoig/assets/audittrpts/OIG_DA-08-04_Feb08.pdf

Hurricane Katrina Activities for Jackson County, Mississippi (FEMA Disaster 1604-DR-MS)

Jackson County, Mississippi, received an award of \$52.7 million from the Mississippi Emergency Management Agency, a FEMA grantee, for emergency protective measures, debris removal, and other disaster-related activities resulting from

Hurricane Katrina. We reviewed costs totaling \$34.3 million. Our review identified questioned costs of \$1,549,536 resulting from inadequate documentation of hazardous stumps, ineffective debris removal monitoring, and debris removal activities that are the responsibility of the Federal Highway Administration. Prior to issuance of the report, FEMA disallowed \$1,012,406 of questioned costs. Therefore, we recommended that the Director, Mississippi Transitional Recovery Office, in coordination with the grantee: (1) inform the county, for future contracts under the FEMA award, to maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders; and, (2) disallow the remaining \$537,130 of questioned costs.

(DA-08-05, February 2008, EMO)

http://www.dhs.gov/xoig/assets/auditreports/OIG_DA-08-05_Feb08.pdf

Louisiana State Grant Management Award, Public Assistance Program

We audited \$57 million of FEMA Public Assistance funds awarded to the State of Louisiana for managing disaster work related to hurricanes Katrina and Rita. The State of Louisiana awarded a contract to James Lee Witt and Associates (Witt) to perform the work. Our objective was to determine the effectiveness of the grant management contract and whether the contract award and costs billed were eligible under applicable laws, regulations, and guidelines.



Hurricane Katrina Eye Wall

The State of Louisiana did not fully compete the contract because Hurricane Katrina created an unprecedented emergency. However, the State of Louisiana's continued use of the contract for 2 years was inappropriate because full competition was needed to ensure reasonable costs and because the contract's terms and conditions were too brief to ensure contractor performance. Further, Louisiana did not adequately monitor the contract, and Witt did not provide enough trained personnel to oversee subgrantee activities.

We recommended that FEMA assist Louisiana in determining the number of qualified personnel needed to manage the Public Assistance Program and require Louisiana to develop a plan for monitoring grant management contractors. (DD-08-01, January 2008, EMO)

http://www.dhs.gov/xoig/assets/auditreports/OIG_DD-08-01_Jan08.pdf

STATE HOMELAND SECURITY GRANTS

Six states were awarded approximately \$853 million in State Homeland Security Grants. These states were Colorado, Florida, Georgia, Michigan, Ohio, and Pennsylvania. The audits assessed the states' homeland security strategic plans, grant spending, management practices, and controls. Although generally the states effectively and efficiently implemented the grant programs and achieved strategic program goals, areas of improvements were identified. Significant recommendations included:

- Evaluating their organizational structure to meet preparedness responsibilities and requirements, and developing and implementing a system to monitor and measure improved preparedness
- Developing and implementing their monitoring procedures to ensure compliance with grant requirements, governing control, procurement accountability, and inventory control
- Identifying overcharges and recovering applicable costs
- Improving their subgrantee monitoring and evaluation systems

Six states were awarded

approximately \$853

million in State Homeland

Security Grants.

State of Colorado, (OIG-08-16,
December 2007, OA)

http://www.dhs.gov/zoig/assets/mgmtrpts/OIG_08-16_Dec07.pdf

State of Florida, (OIG-08-20,
December 2007, OA)

http://www.dhs.gov/zoig/assets/mgmtrpts/OIG_08-20_Dec07.pdf

State of Georgia, (OIG-08-22,
January 2008, OA)

http://www.dhs.gov/zoig/assets/mgmtrpts/OIG_08-22_Jan08.pdf

State of Michigan, (OIG-08-26,
February 15, 2008, OA)

http://www.dhs.gov/zoig/assets/mgmtrpts/OIG_08-26_Feb08.pdf

State of Ohio, (OIG-08-28,
February 2008, OA)

http://www.dhs.gov/zoig/assets/mgmtrpts/OIG_08-28_Feb08.pdf

Commonwealth of Pennsylvania,
(OIG-08-03, October 2007, OA)

http://www.dhs.gov/zoig/assets/mgmtrpts/OIG_08-03_Oct07.pdf

URBAN AREA SECURITY INITIATIVE GRANT PROGRAM

Federal and State Oversight of the New York City Urban Area Security Initiative Grant Program

The level of federal and nonfederal funding expended to enhance preparedness in the New York City urban area is noteworthy and indicative of a concerted effort at all levels to prevent and recover from terrorist attacks. However, improvements are needed in overseeing and monitoring grant expenditures, and rating the preparedness of the New York City urban area when viewed as a single regional entity.

We recommended that FEMA review questionable expenditures, assure subgrantees are using funds to purchase authorized equipment, collect interest earned on federal grant funds, and

encourage the state to: (1) develop a system for reporting subgrantee grant expenditures, (2) verify the expenditures, and (3) allow FEMA limited access to the system for independent monitoring and oversight of grant activities. The report also recommends that FEMA require the Urban Area Working Group to establish priorities and rate the preparedness of the urban area in total, and work with Working Group members to develop criteria and guidance for measuring success as it relates to goals and objectives.

(OIG-08-32, March 2008, OA)

http://www.dhs.gov/zoig/assets/mgmtrpts/OIG_08-32_Mar08.pdf

INVESTIGATIONS

Alabama Resident Sentenced to Longest-Ever Prison Sentence for FEMA fraud (Update)

We investigated an individual who was subsequently indicted on 26 counts involving filing false claims for Hurricane Katrina disaster assistance, theft of funds intended for victims of Hurricane Katrina, threatening a witness from another Hurricane Katrina case, drug distribution, weapons charges, aggravated identity theft, and lying to federal authorities. The subject was convicted on 22 counts and sentenced to 43 years in federal prison, ordered to pay \$79,607 restitution to FEMA, and fined \$2,200. According to the Department of Justice, Hurricane Katrina Fraud Task Force, this was the longest known prison sentence on record for a person convicted of FEMA fraud.

Alabama Resident Sentenced to Six-Year Prison Sentence for FEMA Fraud (Update)

We investigated an individual who was subsequently indicted on four counts involving theft of funds intended for victims of Hurricane Katrina. The subject filed five false applications for disaster assistance. The investigation revealed that the subject was incarcerated prior to the storm and released sometime after Katrina struck the gulf coast. The subject entered a guilty plea to all counts of the indictment. The subject was sentenced to 6 years in federal prison and 3 years supervised probation upon release from prison, ordered to pay \$22,358 in restitution to FEMA,

*Improvements are
needed in overseeing
and monitoring grant
expenditures.*

and fined \$400. Testimony at the sentencing described the subject's detailed involvement and connections to the FEMA fraud. This testimony included areas not charged in the indictment and that contributed to the length of prison sentence the subject received from the court

Ten Eastern Mississippi Residents Charged With FEMA Katrina Fraud

Our investigation resulted in ten subjects being indicted who were all members of the same family. The subjects filed false disaster assistance claims using a nonexistent address in Biloxi, Mississippi. None of the subjects had ever been to the address they claimed. Our initial investigation was on a single subject who eventually disclosed that nine other family members had also filed false claims and the investigation expanded to cover all of them. Total dollar loss to FEMA was \$50,706. All ten subjects have entered guilty pleas for defrauding the government and are awaiting sentencing.

Two Fire Department Officials Indicted on State Charges

We received information that the Fire Chief and Assistant Fire Chief of a Volunteer Fire Department falsified documents for the required National Incident Management System course in order to receive grants. We reviewed department training records and found that the training times and grades for firefighters were duplicitous. Both subjects were interviewed and admitted to falsifying training records in order to be eligible for federal grant funding. Both subjects were indicted on state charges of execution of a document by deception.

16 Individuals Sentenced in a Scheme to Defraud FEMA

A joint investigation with the U.S. Secret Service (USSS) resulted in 16 individuals being indicted and subsequently pleading guilty to false claims to FEMA in the filing and receiving of individual assistance disaster benefits. Each of the 16 subjects was sentenced to approximately 3 years probation. The total loss to FEMA was \$67,074.

Five Katrina Evacuees Indicted for Conspiring to File False Claims

Five former residents of New Orleans, Louisiana, were indicted and charged with conspiracy and mail fraud. Each subject submitted multiple disaster benefit applications to FEMA, claiming that they were displaced from houses or apartments when Hurricane Rita made landfall. In fact, the subjects were already living in FEMA-funded apartments (which were undamaged by the storm) at the time of the disaster. As a result of their false claims, the subjects received approximately \$46,000.

Man Charged With Running a Scam Involving Purported FEMA Trailers

We conducted a joint investigation with the U.S. Department of Housing and Urban Development (HUD) and a local police department regarding a man who defrauded investors of over \$1 million. The man falsely claimed that he purchased FEMA trailers at auction, renovated them, and sold them to HUD. The subject was indicted and charged with wire fraud.

FEMA Fraud Prevention Unit

We arrested 13 people for conspiracy and filing false claims with FEMA based on successful leads referred by the FEMA Florida Long Term Recovery Office, Fraud Prevention Unit. To date, eight of these subjects pleaded guilty and were sentenced, with the U.S. Government seeking restitution in the amount of \$56,000. Working directly with the unit, we were able to conduct subsequent followup investigations that have led to the submission of \$2,481,292 for recoupment from disaster benefit applicants.

Local Government Official in St. Thomas, U.S. Virgin Islands Sentenced for Conspiring to Defraud FEMA

We completed an investigation of a local government official, who, in response to a federally declared disaster, conspired with local contractors to submit false or fictitious claims for work that was either not completed or not completed

in accordance with the terms of the contracts. Our investigation substantiated that the local government official conspired with various contractors to submit claims in the amount of \$97,297 certifying that work was completed in accordance with the terms of the contract. The local government official was convicted of conspiracy and fraud and was sentenced to 6 months home confinement, 36 months supervised probation, restitution in the amount of \$97,565 and a fine in the amount of \$1,000.



Tropical Storm Rita

FEMA Mortgage and Rental Assistance Never Reached the Landlord

An individual lost his job due to the World Trade Center disaster. He then applied for and received \$99,000 in FEMA Mortgage and Rental Assistance but directed a large portion of it to his own use on such things as vacations. He neglected to pay his rent. He was charged with violation theft of government property. The subject pleaded guilty and was sentenced to 6 months home confinement with electronic monitoring, 5 years probation and ordered to pay \$38,500 in restitution.

16 Subjects Indicted for Filing False Claims for FEMA Assistance

We conducted a joint investigation with the OIG for HUD, Federal Bureau of Investigation (FBI), Social Security Administration, U.S. Postal Inspection Service, and the U.S. Marshal's Service, involving 16 subjects who fraudulently obtained disaster assistance benefits by filing applications claiming to have suffered damages from Hurricanes Katrina and Rita. Six of the 13 subjects were indicted for violations for false statements. The remaining defendants were charged with violating local state theft statutes. The defendants are awaiting trial.

15 People Targeted for FEMA Fraud, 18 USC 641; 7 Indicted to Date

We initiated a joint investigation with the FBI and identified 15 subjects who were believed to have committed fraud against FEMA. The estimated loss is believed to be in excess of \$120,000. The United States Attorney's Office has accepted the cases for prosecution and seven of the subjects have already been indicted for theft of government funds. One of the defendants pleaded guilty in federal court and was sentenced to 2 years probation and ordered to pay \$2,000 restitution to FEMA.

Couple Indicted and Found Guilty of Social Security and FEMA Fraud

We opened the investigation after the U.S. Attorney's Office requested our assistance with the investigation of a husband and wife for submitting fraudulent Social Security and FEMA claims. Investigation by DHS and Social Security Administration, OIG, and FBI revealed that the couple received \$110,980 in fraudulent social security benefits and \$13,071 in fraudulent FEMA benefits. Both were indicted for Theft of Public Money, Social Security Fraud, and Mail Fraud. They subsequently pleaded guilty and were sentenced to a combination of imprisonment and home detention, and ordered to pay restitution in the amount of \$110,980.

FEDERAL LAW ENFORCEMENT TRAINING CENTER

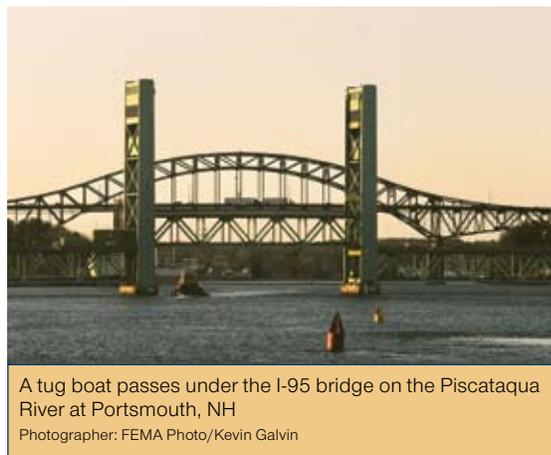
MANAGEMENT REPORTS

Management Letter for the FY 2006 FLETC Balance Sheet

KPMG LLP, under a contract with DHS OIG, issued a Management Letter for the Federal Law Enforcement Training Center's (FLETC's) FY 2006 balance sheet audit. The Management Letter contains observations and recommendations related to internal control that were not required to be reported in the balance sheet report. The comments and recommendations are intended to improve internal control or result in other operating efficiencies. KPMG LLP issued recommendations concerning 1) the accounting policy for Property, Plant, and Equipment; 2) compliance with the Contract Review Process; 3) change controls in the Fixed Asset Module; and 4) compliance with the *Debt Collection Improvement Act of 1996*.

(OIG-08-04, October 2007, OA)

http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_08-04_Oct07.pdf



A tug boat passes under the I-95 bridge on the Piscataqua River at Portsmouth, NH

Photographer: FEMA Photo/Kevin Galvin

OFFICE FOR CIVIL RIGHTS AND CIVIL LIBERTIES

We received 128 Civil Rights and Civil Liberties (CR&CL) complaints from October 10, 2007, through March 31, 2008. Of those, we opened two investigations, referred 125 complaints to CR&CL, and 1 complaint is currently under review for disposition. During the reporting period, we did not make any arrests; there were no indictments or convictions; and the two investigations noted above are still ongoing.

OFFICE OF INTELLIGENCE AND ANALYSIS

MANAGEMENT REPORTS

The DHS Process for Nominating Individuals to the Consolidated Terrorist Watchlist

At the request of the Office of the Director of National Intelligence, 11 Inspectors General coordinated a review on the processes for nominating individuals to the consolidated terrorist watchlist. The FBI, Department of State, Defense Intelligence Agency, and Central Intelligence Agency make more than 95% of watchlist nominations. DHS has made less than 1% of all nominations since 2005. DHS is a major consumer of nomination information.

We recommended that the Office of Intelligence and Analysis work with the U.S. Customs and Border Protection National Targeting Center to issue department-wide guidance governing the DHS watchlist nomination process. We also recommended that the Office of Intelligence and Analysis develop protocols for sharing National Counterterrorism Center (NCTC) watchlist information with all DHS components, intelligence community member or not, to ensure proper inclusion and updating of NCTC information.

(OIG-08-29, February 2008, ISP)

http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_08-29_Feb08.pdf

TRANSPORTATION SECURITY ADMINISTRATION

MANAGEMENT REPORTS

Information Technology Management Needs to Be Strengthened at the Transportation Security Administration

Information technology plays a critical role in supporting the Transportation Security Administration's (TSA's) security mission. In 2001, TSA began developing an initial information technology (IT) infrastructure, as well as implementing an array of explosive detection and X-ray systems to meet mission needs in key areas such as aviation security. The objectives of this review were to evaluate TSA's management of current technologies and infrastructure, to ensure effective transportation security mission operations and information management and exchange across internal and external stakeholders.

We determined that TSA does not manage and apply IT effectively to support accomplishment of its mission objectives. Due to early pressures to meet tight congressional time frames and the public's demand for increased transportation security, TSA's technology environment evolved quickly and in a highly decentralized manner. The resulting IT infrastructure has limited system integration and data sharing, and has perpetuated inefficient manual work processes. Additionally, due to a lack of authority and standard policies to govern technology implementation across TSA offices, the agency's Chief Information Officer (CIO) faces significant challenges in conducting agency-wide IT planning and investment management to counter the fragmented environment. The declining number of staff within the central IT Division also impedes the CIO's ability to manage the IT infrastructure and support new technology requirements.

We recommended that the Assistant Administrator for TSA strengthen agency IT management by empowering the CIO with IT budget authority, developing an agency-wide strategic planning approach, implementing an enterprise architecture, establishing guidelines to manage IT development, and increasing staff resources within the IT Division.

(OIG-08-07, October 2008, IT-A)

http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_08-07_Oct07.pdf

Independent Auditor's Report on TSA's FY 2006 Balance Sheet

KPMG LLP, under a contract with DHS OIG, was unable to express an opinion on the TSA's balance sheet for the year ending September 30, 2006. The disclaimer of opinion was due to the fact that TSA was unable to provide sufficient evidential matter or make knowledgeable representations of facts and circumstances that support the account balance of property and equipment, intragovernmental accounts payable, accounts payable, accrued leave, and components of net position as presented in TSA's consolidated balance sheet at September 30, 2006.

The report discusses seven reportable conditions, all of which are considered material weaknesses related to financial reporting, financial systems security, undelivered orders and contract file maintenance, property and equipment, journal voucher preparation and approval, grant accrual methodology and grant monitoring, and accrued leave.

The report also notes instances of noncompliance with six laws and regulations related to *Federal Financial Management Improvement Act of 1996*, *Federal Information Security Management Act (Electronic Government Act of 2002)*, *Single Audit Act Amendments of 1996*, and laws and regulations supporting Office of Management and Budget Circular No. A-50 Revised (Audit Followup), *Debt Collection Improvement Act of 1996*, *Improper Payments Information Act of 2002*, and *Anti-deficiency Act*.

(OIG-08-05, October 2007, OA)

http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_08-05_Oct07.pdf

*We determined that TSA
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apply IT effectively to
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of its mission objectives.*

Audit of Airport Passenger and Checked Baggage Screening Performance (Unclassified Summary)

The *Aviation and Transportation Security Act* requires Transportation Security Officers (TSOs) to screen or inspect all passengers, goods, and property to prevent threat items from being introduced into the sterile areas and checked baggage systems of the Nation's airports. Our screening checkpoint tests included attempts to pass from the public area of each selected airport to the sterile area, through the passenger screening checkpoint carrying weapons and simulated improvised explosive devices. For our checked baggage tests, we introduced bags containing simulated improvised explosive devices into the baggage system at each airport we visited. Our purpose in conducting unannounced covert testing was to determine whether: (1) the TSA's screening procedures and standards are adequate; (2) TSOs are following those screening procedures; and (3) aviation security screening equipment and technologies are functioning properly and as intended.

TSA concurred with all six of the recommendations for improvement resulting from our audit. The recommendations, when implemented, are expected to improve an already strong passenger and checked baggage screening process. This report's classification marking is "Secret."

(OIG-08-25, February 2008, OA)

http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_08-25_Feb08.pdf

INVESTIGATIONS

Two Transportation Security Administration Officers and One Airline Employee Charged with Drug Trafficking

We conducted a joint, undercover operation with the Drug Enforcement Administration, which revealed that on three occasions a TSO, while in uniform, conspired with another TSO and an airline employee to transport several kilograms of narcotics through the airport security checkpoint and aboard an aircraft. The two TSOs and the airline employee were arrested and charged with conspiring to possess with intent to distribute cocaine and heroine, and wire fraud.

Transportation Security Administration Officer Charged with False Statements

We conducted a joint investigation with the Department of Labor's Office of Inspector General of a TSO for false statements. The TSO was on long-term disability receiving over \$125,000 in disability funds following a work-related injury, and failed to report earned income to the Office of Workers Compensation. The TSO was arrested, pleaded guilty to false statements, and is awaiting sentencing.

Transportation Security Officer Convicted for Theft of Approximately \$34,000 from His Elderly Mother

We opened an investigation after receiving information from a local police department that a TSO stole approximately \$18,000 from his elderly mother's bank account. Our investigation determined that the TSO also stopped paying the bill at his mother's nursing home and used her credit cards for personal means; total loss approximately \$34,000. The TSO was interviewed and admitted guilt. The TSO pleaded guilty to theft in state court and was sentenced on March 13, 2008, to 60 days confinement, \$33,874 restitution, and a \$500 fine.

UNITED STATES CITIZENSHIP AND IMMIGRATION SERVICES

MANAGEMENT REPORTS

Review of the USCIS Benefit Fraud Referral Process (Redacted)

In U.S. Citizenship and Immigration Services (USCIS), the Office of Fraud Detection and National Security (FDNS) has primary responsibility for resolving immigration petitions with potential fraud indicators. However, with the notable exception of conspiracies that FDNS identified for criminal investigation by United States Immigration and Customs Enforcement (ICE), FDNS had limited measurable effect on immigration benefit fraud. FDNS' resources were diverted by higher priority national security

and public safety background checks and by the labor-intensive commitment to refer all articulable fraud petitions to ICE for review. USCIS adjudicators referred less than 1% of immigration benefit petitions to FDNS as having articulable fraud indicators.

ICE Special Agents in Charge accepted less than 1% of these referrals for criminal investigation. The FDNS tracking database was not adequate for case management, program oversight, and data analysis. Our report contains ten recommendations to encourage adjudicators to contribute their expertise in detecting fraud, to improve coordination between FDNS and adjudications at the field level, and to restructure or replace the USCIS database to support FDNS business processes better.

(OIG-08-09, October 2007, ISP)

http://www.dhs.gov/zoig/rpts/mgmt/editorial_0334.shtm

Technical Security Evaluation of U.S. Citizenship and Immigration Services Activities at the Chet Holifield Federal Building

We evaluated the USCIS technical security programs at the Chet Holifield Federal Building, Laguna Niguel, California. Specifically, we addressed how USCIS had implemented computer security operational, technical, and managerial controls for its information technology assets at this site.

This evaluation included onsite verification and validation of operational security controls, evaluation of technical security controls implemented on its servers, and also reviews of applicable DHS policies, procedures, and other appropriate documentation. We made two recommendations to improve operational and physical security, five recommendations related to technical security, and four recommendations to improve management controls. USCIS concurred with our recommendations and is addressing the findings.

(OIG-08-02, October 2007, IT-A)

http://www.dhs.gov/zoig/assets/mgmt/rpts/OIG_08-02_Oct07.pdf



Computer Room Printout Desk. This illustrates how printouts are not segregated and restricted, but are commonly placed on a table near the entrance to the computer room. Nearby, USCIS places daily backup tapes for couriers.

INVESTIGATIONS

A Private Citizen is Sentenced for Marriage Fraud

We conducted a joint investigation with ICE after receiving information from a confidential informant who reported being involved in a fraudulent marriage to a foreign national who sought legal permanent residence status in the United States. The confidential informant admitted to receiving \$2,000 in exchange for marrying the foreign national. We obtained evidence implicating 18 individuals who were involved in the marriage fraud scheme. Arrest warrants were issued and all individuals entering into marriages for the purpose of evading U.S. immigration laws were charged. The ringleader of the marriage fraud scheme pleaded guilty and was sentenced to 36 months imprisonment.

A Private Citizen Pleaded Guilty to Conspiracy and Immigration Fraud

We participated in a joint investigation with the FBI and ICE-Office of Investigations that revealed that a private citizen was obtaining legitimate immigration documents for aliens by having immigration applicants supply fraudulent information. The defendant is awaiting sentencing after pleading guilty to fraud, and aiding and abetting.

FDNS had limited measurable effect on immigration benefit fraud.

Former USCIS Employee, and Others, Indicted for Possession of Controlled Substance

We received information that members of the Aryan Brotherhood and Aryan Circle had solicited a former USCIS official to provide sensitive computerized records, including but not limited to National Crime Information Center records, in exchange for drugs, sex, and money. We conducted two consensual searches at the subject's homes, which resulted in the seizure of National Crime Information Center records, narcotics, and stolen property. The former USCIS official and two other subjects were indicted and arrested on state charges of possession of methamphetamine.

USCIS Official Sentenced

We opened an investigation after receiving allegations that the official's live-in girlfriend was an illegal immigrant and that he assisted her in obtaining fraudulent identification documents. A Federal Grand Jury indicted the official for harboring an illegal alien and conspiracy to commit fraud with identification documents. The official was found guilty at trial and subsequently sentenced to 1-year imprisonment, 3 years supervised release, and ordered to forfeit his vehicle, which was valued at approximately \$45,000. The illegal alien was found guilty of document fraud and sentenced to 30-day incarceration. An immigration hearing for her is also pending.

USCIS Records Clerk indicted for Conspiracy, Bribery, and the Procurement of Citizenship or Naturalization Unlawful, Pleads Guilty, and Sentenced to Probation

Our investigation, which resulted in a corrupt Supervisory District Adjudications Officer being sentenced to 15 years imprisonment, revealed that an employee in the same office facilitated payments to the corrupt official, who fraudulently issued immigration benefits for a relative and friend. The employee, as well as the relative and friend, were indicted in the U.S. District Court for bribery, conspiracy, and unlawful procurement of citizenship. Each pleaded guilty and received

sentences ranging from 2 years probation, to 3 months home confinement and a \$1,000 fine.

Former USCIS Adjudications Officer Pleaded Guilty to Bankruptcy Fraud

We initiated an investigation after receiving allegations of possible bribery payments to an Adjudications Officer (AO). We conducted an investigation that showed that the AO was allowing a fugitive from justice to use his credit card while living overseas. The AO was being reimbursed for the credit card charges, but the fugitive ran out of funds and stopped reimbursing the AO. The AO was unable to make his credit card payments and filed for bankruptcy protection. We paroled the fugitive into the U.S. and he was immediately arrested. The U.S. Attorney's Office charged the AO after hearing the fugitive's proffered testimony. The AO was charged in a four-count indictment for bankruptcy fraud and subsequently pleaded guilty. The AO will be sentenced later this year.

UNITED STATES COAST GUARD

MANAGEMENT REPORTS

Maintenance, Rehabilitation, and Upgrading of Shore Facilities in Support of United States Coast Guard Missions

We conducted an audit to determine the extent to which the United States Coast Guard (USCG) is properly maintaining, rehabilitating, and upgrading its more than 22,000 shore facilities. As each year passes, this task becomes increasingly challenging. More than 80% of the USCG's current acquisition, construction, and improvements funding is directed to the Integrated Deepwater System Program, leaving funding available for shore facilities well below the industry and Coast Guard accepted standard of 2% of plant replacement value. Although USCG funded maintenance at the minimum recommended level, we identified instances where USCG used maintenance funds to augment shore acquisition, construction, and improvement activities resulting in the underfunding of the maintenance program.

Using maintenance funds to support shore acquisition, construction, and improvement activities does not comply with the requirements in Office of Management and Budget Circular No. A-11 and Federal Accounting Standards Advisory Board Statement No. 6. The gap in shore acquisition, construction, and improvements funding and the inappropriate use of maintenance funds could hasten the deterioration of USCG's critical shore facilities and ultimately affect its overall operational capability.

(OIG-08-24, February 2008, OA)

http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_08-24_Feb08.pdf



This March 2006 photograph illustrates an interior office in the ANT/WPB Building, Sector Southeastern New England, and demonstrates the deteriorating conditions of the building.

Annual Review of Mission Performance United States Coast Guard (FY 2006)

The Homeland Security Act of 2002 requires that we annually assess the USCG's performance of all its missions. To address the Act's requirements, we reviewed the USCG's resource hours for performing various homeland security and nonhomeland security missions, as well as performance goals and results for FY 2006. Although the USCG's use of resource hours has increased significantly from baseline levels (2001), the growth in resource hours has leveled off and the USCG did not meet 6 of 11 performance goals. The USCG experienced difficulty maintaining readiness and operational capability of marine assets. Some vessels are nearing the end of their useful service life and are increasingly expensive to repair. The USCG will continue to experience difficulty maintaining the readiness of these marine assets until the Deepwater Acquisitions Program delivers replacement cutters and patrol boats. Further, the USCG faces barriers to improving or sustaining its mission performance,

including decommissioning of its 123' patrol boats; a limited and finite number of assets to respond to crises; and cost, schedule, performance, and management oversight issues with its Deepwater Acquisition program.

(OIG-08-30 February 2008, OA)

http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_08-30_Feb08.pdf

UNITED STATES CUSTOMS AND BORDER PROTECTION

MANAGEMENT REPORTS

Better Administration of Automated Targeting System Controls Can Further Protect Personally Identifiable Information (Redacted)

We evaluated whether DHS is protecting the personally identifiable information (PII) collected, transmitted, and stored within the Automated Targeting System, one of the most advanced targeting systems in the world. Customs and Border Patrol Officers (CBPOs) use the system to effectively and efficiently identify cargo, individuals, or conveyances that may present a risk to the United States. Our audit focused on specific controls implemented for the Automated Targeting System's passenger database, which contains the majority of PII stored within the system. Generally, United States Customs and Border Protection (CBP) has implemented robust operational and system security controls to protect the PII contained within the Automated Targeting System. While a number of Automated Targeting System controls have been implemented, CBP management still needs to ensure that other established controls are better used in the protection of PII. Our recommendations included ensuring that Automated Targeting System access control lists are periodically reviewed to verify that users were granted only the level of access privileges authorized; user accounts that have not been accessed within 90 days are disabled; and security vulnerabilities identified are timely remediated.

(OIG-08-06, October 2007, IT-A)

http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_08-06_Oct07.pdf

Generally, CBP has

implemented robust

operational and system

security controls to

protect the PII contained

within the Automated

Targeting System.



Border Patrol Marine Officers patrol the waters of the Rio Grande River along the Texas and Mexico border.

Customs and Border Protection Award and Oversight of Alaska Native Corporation Contract for Enforcement Equipment Maintenance and Field Operations Support

CBP did not comply with federal regulations when it awarded Chenega Technology Services Corporation (Chenega) a sole-source contract under an incorrect industry classification code. Had CBP used the correct classification, Chenega would have been ineligible for the sole source award. This action prevented eligible small businesses from competing for a nearly \$475 million contract and might not provide the best value for the government.

We recommended that CBP improve its training and management controls related to North American Industry Classification System selection and oversight of subcontracting; determine whether exercising additional options in the current contract would provide the best value to the government; and certify Chenega's purchasing system after Chenega remediates all deficiencies.

(OIG-08-10, October 2008, OA)

http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_08-10_Oct07.pdf

U. S. Customs and Border Protection's FY 2007 Financial Statements

KPMG LLP, under a contract with DHS OIG, audited the consolidated balance sheets of DHS' CBP as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, and custodial activity, and

the combined statements of budgetary resources for the years then ended. KPMG LLP concluded that CBP's consolidated financial statements, as of and for the years ended September 30, 2007 and 2006, are presented fairly, in all material respects, in conformity with the United States generally accepted accounting principles.

KPMG LLP's consideration of internal control over financial reporting resulted in the following conditions being identified as significant deficiencies:

- Drawback of Duties, Taxes, and Fees
- Information Technology
- Entry Process:
 - Compliance Measurement Program
 - Bonded Warehouse and Foreign Trade Zones
 - In-Bond Program
 - Continued *Dumping and Subsidy Offset Act of 2000* Refunds

KPMG LLP considers the first two significant deficiencies above to be material weaknesses. KPMG LLP noted no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

(OIG-08-15, November 2007, OA)

http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_08-15_Nov07.pdf

INVESTIGATIONS

CBPO Was Arrested for Alien Smuggling

We investigated an allegation that a CBPO allowed an undocumented Mexican national to enter the United States without any entry documents. The undocumented alien admitted that he paid \$600 to smugglers to be smuggled into the United States, and that he was told to cross at this CBPO's inspection point at a land border port of entry. When questioned, this CBPO confessed to his involvement in the scheme and was arrested. The CBPO later pleaded guilty to alien smuggling and is currently awaiting sentencing.

CBPO Married and Harbored an Undocumented Alien

We received information that a CBPO was married to an undocumented alien who was illegally present in the United States. When interviewed, the subject admitted that he was aware of his spouse's immigration status before their marriage, and that he knew it was illegal to harbor undocumented aliens. The Department of Justice declined prosecution in lieu of administrative action.

CBPO Convicted of Possession and Conspiracy to Distribute Cocaine and Heroin

We conducted an investigation of a CBPO transporting cocaine and heroin. As part of our undercover operation, we determined that the employee transported 10 kilograms from Puerto Rico to Miami. The investigation led to the employee's arrest after attempting to transport an additional 25 kilograms. The employee was convicted of attempted possession with intent to distribute cocaine and attempted possession with intent to distribute heroin and cocaine. The employee faces a statutory maximum sentence of life imprisonment and a \$250,000 fine.

CBPO Convicted of Bribery and Alien Smuggling

We conducted an investigation of a CBPO who allowed illegal aliens to enter through his airport immigration line. During the investigation, we were able to arrest members of the organization covertly and interview the aliens that paid to enter through the employee's immigration lane. Our investigation led to an indictment on charges of Alien Smuggling, Bribery of a Public Official, and Conspiracy. The employee was convicted of one count of bribery, one count of conspiracy to bring aliens into the United States for financial gain, and five counts of alien smuggling. The employee faces maximum penalties of 15 years on the bribery charge, 5 years on the conspiracy charge, and 3 to 10 years for each count of alien smuggling.

CBPO Convicted of Conspiracy and Distribution of Marijuana

We arrested a CBPO for conspiracy and the distribution of cannabis after he sold marijuana from his government vehicle during an undercover operation. The officer later pleaded guilty with sentencing pending.

CBPO Was Conducting Queries in the Enforcement Communications System for Drug Traffickers

A cooperating defendant in an ICE-Office of Investigations New York drug smuggling investigation provided information to us that a CBPO would "look into" why the defendant and other members of the smuggling operation were being stopped when entering the United States. We determined that the CBPO had conducted queries in The Enforcement Communications System on numerous members of the smuggling organization. The CBPO's spouse is also a CBPO, but there is no evidence that indicates the spouse was involved. The officer was charged with conspiracy to commit computer fraud, was convicted and is awaiting sentencing.

CBP Telecommunications Specialist Embezzles Local Union Funds

We conducted a joint investigation with Department of Labor Office of Labor Management Standards into an allegation that a CBP telecommunications specialist embezzled funds from the American Federation of Government Employees' local union. The investigation revealed that the telecommunications specialist embezzled \$71,295 of union funds. The CBP employee was charged and pleaded guilty to making false statements.

Two Civilians Arrested and Convicted of Transfer and Sale of Counterfeit Identification Documents

We initiated an investigation of a fraudulent immigration document vendor who was accused of conspiring with an unidentified CBPO to provide legitimate immigration documents to unqualified persons who sought to unlawfully enter the United States. As a result of several undercover operations, several documents were purchased from the vendors. The documents were determined to be counterfeit after a forensic examination. The results of the analysis revealed that no DHS employees were involved in the scheme. Two civilians were arrested and pleaded guilty to fraud and related activity in connection with identification documents. A warrant was issued for a third individual, who is currently at large.

U.S. Border Patrol Agent Found Guilty of Sexual Conduct with a Minor

We conducted a joint investigation with local authorities that resulted in the arrest and conviction of a Border Patrol Agent (BPA) for violations of a local statute of sexual conduct with a minor. The agent was sentenced to 10 years probation and is required to register as a sex offender.

A U.S. Border Patrol Agent Conspired to Smuggle Illegal Aliens into the United States for Financial Gain

Our investigation revealed that a BPA conspired with alien smugglers along the Southwest border to transport hundreds of illegal aliens into the United States. In addition, we determined that the BPA was laundering money for the alien smuggling organization. The BPA received cash payments and valuable gifts in return for the illicit services. The BPA was sentenced to 36 months imprisonment for conspiracy to bring in illegal aliens for financial gain and conspiracy to conceal proceeds from illegal activities.

A U.S. Border Patrol Agent Sentenced for Civil Rights Violations

Our investigation resulted in a senior BPA being sentenced to serve 12 months in prison and 1 year of supervised release for each of the two counts of deprivation of rights under color of law. The Judge ordered that the two 12-month prison terms be served consecutively for a total of 24 months of incarceration, and that the supervised release be served concurrently for a total of 1 year of supervised release. The judge also ordered the senior BPA to pay a \$1,000 fine and two \$25 special assessment fees.

**UNITED STATES
IMMIGRATION AND
CUSTOMS ENFORCEMENT**

INVESTIGATIONS

ICE Acting Field Director Indicted for Bribery

We opened an investigation after receiving information that the subject was accepting bribes and gratuities in exchange for arranging the release of ICE detainees. The subject was also the direct supervisor of a detention officer, who we arrested for the theft of over \$400,000 in currency from detained aliens. The subject was indicted for bribery, conspiracy, extortion, and misprision of a felony.

ICE Special Agent Pleads Guilty to Obstruction of Justice and Attempted Lewdness

We opened an investigation after receiving information from a County Sheriff's Department that an ICE Special Agent was arrested for exposing himself to two minor children and photographing his genital area with one of the minor's cellular phones. The ICE Special Agent was arrested by the County Sheriff's Department and subsequently pleaded guilty to state charges of Misdemeanor, Obstruction of Justice, and Misdemeanor Attempted Lewdness. He was sentenced to serve 60 days in jail, fined \$1,000, and ordered to pay \$159 in restitution.

A Federal Protective Service Contract Dispatcher Pleads Guilty to Bank Theft

We opened an investigation after a Federal Protective Service (FPS) Supervisory Special Agent reported that an FPS contract dispatcher was under investigation by the FBI for stealing money out of Automatic Teller Machines for the past several years. Investigative covert methods were used to track the FPS dispatcher and monitor the theft activity. The FPS dispatcher was arrested and later pleaded guilty to bank theft.

among TSA and preparedness offices. TSA and the Office of State and Local Government Coordination and Preparedness monitored the FY 2004 and FY 2005 expenditures. Closeout had not yet occurred for either year's funds because of issues regarding program administration costs, which were the largest expense category (\$9.3 million). Training was the American Trucking Associations' second largest expense category (\$8.8 million).

(OIG-08-08, October 2007, ISP)

http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_08-08_Oct07.pdf

MULTIPLE COMPONENTS

MANAGEMENT REPORTS

Administration of the Federal Trucking Industry Security Grant Program for FY 2004 and FY 2005

As required by the Implementing Recommendations of the 9/11 Commission Act of 2007 (Public Law 110-53), we initiated the first of two reviews of the trucking industry security grant program. The program funds Highway Watch[®], which was managed by the American Trucking Associations. In this report, we summarized grant procedures and expenditures related to the FY 2004 and FY 2005 grants, and made no recommendations. DHS oversight of the grant program shifted

Status Report on Open Recommendations to DHS Components (Unclassified)

On December 7, 2007, the U.S. House of Representatives Committee on Oversight and Government Reform requested a list of unimplemented recommendations made by our office to DHS components since DHS' inception on March 1, 2003. As of December 31, 2007, there were 1,070 unimplemented recommendations requiring further DHS action. Most often DHS components agreed with the recommendations and proposed actions to implement them. However, it can take months or in some instances years to implement corrective actions. DHS components are required to provide periodic reports of their progress toward closing recommendations. Upon verification, implemented recommendations are closed. DHS components are working with our office to close the recommendations listed in the report.

(OIG-08-27, February 2008, ISP)

OTHER OFFICE OF INSPECTOR GENERAL ACTIVITIES



Oversight of Nondepartmental Audits

We processed 28 contract audits conducted by the DCAA during the current reporting period. We also processed 12 single audit reports issued by other independent public accountant organizations. The single audit reports questioned \$64,581,945, of which \$64,509,941 was determined to be unsupported. The reports were conducted according to the *Single Audit Act of 1996*, as amended by PL 104-136. We continue to monitor the actions taken to implement the recommendations in these reports.

Significant Reports Unresolved Over 6 Months

Timely resolution of outstanding audit recommendations continues to be a priority of both our office and the department. As of this report date, we are responsible for monitoring 191 reports that contain recommendations that have been unresolved for more than 6 months. Management decisions have not been made for significant reports, as follows:

- 120 FEMA-related financial assistance disaster audits
- 25 Program Management reports
- 27 Single Audit Act reports
- 6 Inspection reports
- 13 Defense Contract Audit Agency reports

191 Total

Next, we summarize open recommendations that are over 6 months old for a report entitled, “A Performance Review of FEMA’s Disaster Management Activities in Response to Hurricane Katrina,” Report Number OIG-06-32. The report was issued in March 2006. While some recommendations have been resolved, nine recommendations still remain unresolved over 6 months. As of the end of March 2008, we have not received management decisions from FEMA regarding the following recommendations:

- 10 Develop a definitive ESF-15 organizational chart that is scalable to the size of an incident, with a clear hierarchical structure and information flow.
- 12 Complete the development of and fully implement the DHS Public Affairs state outreach program.
- 14 Establish measurable response expectations and provide the necessary financial, technical, and staff support to meet those expectations.
- 18 Define the Mobile Emergency Response Support authorizations for equipment and staffing, including requirements for mission support during a catastrophic disaster, and fund and staff the detachments to meet requirements.
- 19 Develop a disaster workforce plan that accounts for standing capability for permanent, temporary, and reserve staff that is responsive to the needs demonstrated in response to previous disasters, and also develop a plan that is scalable to other events irrespective of cause, size, or complexity.
- 26 Establish eligibility criteria, internal program controls, and a basis for testing a program before implementation to ensure the program meets disaster assistance provisions of the *Stafford Act*.
- 35 Provide states with training on the applicability of the National Preparedness System and preparedness grants to all hazards, including natural disasters
- 36 Develop a system to assess state capability to respond to a disaster, without federal assistance and in respect to a minimum level of preparedness based on the Emergency Management Accreditation Program standard.
- 38 Ensure all DHS employees receive training on DHS responsibilities under the National Response Plan and National Incident Management System.

LEGISLATIVE AND REGULATORY REVIEWS



Section 4(a) of the *IG Act* requires the IG to review existing and proposed legislation and regulations relating to DHS programs and operations and to make recommendations concerning their potential impact. Our comments and recommendations focus on the impact of the proposed legislation and regulations on the economy, and efficiency in administering DHS programs and operations or on the prevention and detection of fraud and abuse in DHS programs and operations. We also participate on the President's Council on Integrity and Efficiency, which provides a mechanism to comment on existing and proposed legislation and regulations that have government-wide impact. During this reporting period, we reviewed 39 legislative and regulatory proposals, draft DHS policy directives, and other items. Some of these items are highlighted below:

S. 2583 Improper Payments Elimination and Recovery Act. This proposed Senate bill would amend the *Improper Payments Information Act of 2002*. We suggested the draft bill use certain definitions more clearly to avoid misinterpretation. Also, we recommended clarifying how payments made by other federal agencies will be tested and how the bill's remediation provisions will apply to a noncompliant agency. Finally, we asked how the bill will impact the *DHS Financial Accountability Act's* requirement to have an annual audit on internal controls over financial reporting.

Proposed Federal Acquisition Regulation Amendments for Contractor Compliance Program and Integrity Reporting. With the significant increase of service contracts in the federal sector, increased federal spending through procurements, and a smaller acquisition workforce, the government faces an increasing need for contractors to police themselves. Explicit Federal Acquisition Regulation requirements, such as those proposed, serve to emphasize the critical importance of integrity in government contracting. Therefore, we strongly supported the proposed amendments.

CONGRESSIONAL TESTIMONY AND BRIEFINGS



Congressional requests for significant work resulted in briefings on the results of our review of the World Trade Center Captive Insurance Company and the removal of a Canadian citizen to Syria.

The office testified on two occasions during the reporting period:

- February 13, 2008: Subcommittee on Homeland Security, Committee on Appropriations, U.S. House of Representatives; major management challenges facing the department.
- March 13, 2008: Subcommittee on Homeland Security, Committee on Appropriations, U.S. House of Representatives; oversight of the Federal Emergency Management Agency.

Member- and staff-level briefings and meetings continued apace in our ongoing efforts to keep the

Congress fully and currently informed. Congressional requests for significant work resulted in briefings on the results of our review of the World Trade Center Captive Insurance Company and the removal of a Canadian citizen to Syria. Meetings to discuss various requests by Members included undocumented workers at a factory in New Bedford, Massachusetts, the known shipper program, the COSCO BUSAN allision in the San Francisco Bay, concerns regarding security regulations for general aviation, prepackaged news, and the secure flight program.

Reports and testimonies are available on our Website at: www.dhs.gov/oig.



Richard L. Skinner, DHS Inspector General, and the former Comptroller General, David M. Walker, testifying at a congressional hearing.

APPENDICES



Appendix 1

Audit Reports With Questioned Costs

| Report Category | Number | Questioned Costs | Unsupported Costs |
|--|------------|----------------------|----------------------|
| A. Reports pending management decision at the start of the reporting period | 182 | \$458,556,026 | \$55,431,474 |
| B. Reports issued/processed during the reporting period with questioned costs | 20 | \$112,708,862 | \$81,387,077 |
| Total Reports (A+B) | 202 | \$571,264,888 | \$136,818,551 |
| C. Reports for which a management decision was made during the reporting period | 22 | \$65,544,635 | \$5,043,513 |
| (1) Disallowed costs | 11 | \$32,230,825 | \$82,692 |
| (2) Accepted costs | 11 | \$33,313,810 | \$4,960,821 |
| D. Reports put into appeal status during period | 0 | \$0 | \$0 |
| E. Reports pending a management decision at the end of the reporting period | 180 | \$505,720,253 | \$131,775,038 |
| F. Reports for which no management decision was made within 6 months of issuance | 160 | \$393,011,391 | \$50,387,961 |

Notes and Explanations:

Management Decision – Occurs when DHS management informs us of its intended action in response to a recommendation, and we determine that the proposed action is acceptable.

Accepted Costs – Previously questioned costs accepted in a management decision as an allowable cost to a government program. Before acceptance, we must agree with the basis for the management decision. In Category C, lines (1) and (2) do not always equal the total on line C because resolution may result in values different from the original recommendations.

Questioned Costs – Auditors commonly question costs arising from an alleged violation of a provision of a law, regulation, grant, cooperative agreement, or contract. A “questioned” cost is a finding in which the cost, at the time of the audit, is not supported by adequate documentation or is unreasonable or unallowable. A funding agency is responsible for making management decisions on questioned costs, including an evaluation of the findings and recommendations in an audit report. A management decision against the auditee would transform a questioned cost into a disallowed cost.

Unsupported Costs – Costs that are not supported by adequate documentation.

Appendix 1b

Audit Reports With Funds Put to Better Use

| Report Category | Number | Amount |
|--|----------|---------------------|
| A. Reports pending management decision at the start of the reporting period | 9 | \$68,975,386 |
| B. Reports issued during the reporting period | 0 | \$0 |
| Total Reports (A+B) | 9 | \$68,975,386 |
| C. Reports for which a management decision was made during the reporting period | 2 | \$3,466,678 |
| (1) Value of recommendations agreed to by management | 2 | \$3,466,678 |
| (2) Value of recommendations not agreed to by management | 0 | \$0 |
| D. Reports put into the appeal status during the reporting period | 0 | \$0 |
| E. Reports pending a management decision at the end of the reporting period | 7 | \$65,508,708 |
| F. Reports for which no management decision was made within 6 months of issuance | 7 | \$65,508,708 |

Notes and Explanations:

In category C, lines (1) and (2) do not always equal the total on line C, because resolution may result in values greater than the original recommendations.

Funds Put to Better Use – Audits can identify ways to improve the efficiency, effectiveness, and economy of programs, resulting in costs savings over the life of the program. Unlike questioned costs, the auditor recommends methods for making the most efficient use of federal dollars, such as reducing outlays, deobligating funds, or avoiding unnecessary expenditures.

Appendix 2

Compliance – Resolution of Reports and Recommendations

| | |
|---|-------|
| MANAGEMENT DECISION IS PENDING | |
| 9/30/07: | |
| Reports open over 6 months | 220 |
| Recommendations open over 6 months | 801 |
| 3/31/08: | |
| Reports open over 6 months | 191 |
| Recommendations open over 6 months | 604 |
| CURRENT INVENTORY | |
| Open reports at the beginning of the period | 452 |
| Reports issued this period | 83 |
| Reports closed this period | 113 |
| Open reports at the end of the period | 422 |
| ACTIVE RECOMMENDATIONS | |
| Open recommendations at the beginning of the period | 1,904 |
| Recommendations issued this period | 355 |
| Recommendations closed this period | 365 |
| Open recommendations at the end of the period | 1,894 |

Appendix 3

Management Reports Issued

| Report Number | Date Issued | Report Title | Questioned Costs | Unsupported Costs | Funds Put to Better Use |
|---------------|-------------|---|------------------|-------------------|-------------------------|
| 1. OIG-08-01 | 10/07 | Progress Has Been Made But More Work Remains in Meeting Homeland Security Presidential Directive 12 Requirements | \$0 | \$0 | \$0 |
| 2. OIG-08-02 | 10/07 | Technical Security Evaluation of U.S. Citizenship and Immigration Services Activities at the Chet Holifield Federal Building | \$0 | \$0 | \$0 |
| 3. OIG-08-03 | 10/07 | The Commonwealth of Pennsylvania's Management of State Homeland Security Grants Awarded During Fiscal Years 2002 through 2004 | \$721,317 | \$0 | \$0 |
| 4. OIG-08-04 | 10/07 | Management Letter for the FY 2006 FLETC Balance Sheet | \$0 | \$0 | \$0 |
| 5. OIG-08-05 | 10/07 | Independent Auditor's Report on TSA's FY 2006 Balance Sheet | \$0 | \$0 | \$0 |
| 6. OIG-08-06 | 10/07 | Better Administration of Automated Targeting System Controls Can Further Protect Personally Identifiable Information (Redacted) | \$0 | \$0 | \$0 |

Appendix 3

Management Reports Issued (continued)

| Report Number | Date Issued | Report Title | Questioned Costs | Unsupported Costs | Funds Put to Better Use |
|---------------|-------------|--|------------------|-------------------|-------------------------|
| 7. OIG-08-07 | 10/07 | Information Technology Management Needs to Be Strengthened at the Transportation Security Administration | \$0 | \$0 | \$0 |
| 8. OIG-08-08 | 10/07 | Administration of the Federal Trucking Industry Security Grant Program for FY 2004 and 2005 | \$0 | \$0 | \$0 |
| 9. OIG-08-09 | 10/07 | Review of the USCIS Benefit Fraud Referral Process (Redacted) | \$0 | \$0 | \$0 |
| 10. OIG-08-10 | 10/07 | Customs and Border Protection Award and Oversight of Alaska Native Corporation Contract for Enforcement Equipment Maintenance and Field Operations Support | \$0 | \$0 | \$0 |
| 11. OIG-08-11 | 1/08 | Major Management Challenges Facing the Department of Homeland Security (Excerpts from the FY 2007 DHS Annual Financial Report) | \$0 | \$0 | \$0 |
| 12. OIG-08-12 | 11/07 | Independent Auditors' Report on DHS' FY 2007 Financial Statements | \$0 | \$0 | \$0 |
| 13. OIG-08-13 | 11/07 | FY 2007 Audit of DHS' Internal Control Over Financial Reporting | \$0 | \$0 | \$0 |

Appendix 3

Management Reports Issued (continued)

| Report Number | Date Issued | Report Title | Questioned Costs | Unsupported Costs | Funds Put to Better Use |
|---------------|-------------|--|------------------|-------------------|-------------------------|
| 14. OIG-08-14 | 11/07 | Improved Administration Can Enhance Federal Emergency Management Agency Classified Laptop Computer Security (Unclassified Summary) | \$0 | \$0 | \$0 |
| 15. OIG-08-15 | 11/07 | Independent Auditors' Report on U.S. Customs and Border Protection's FY 2007 Financial Statements | \$0 | \$0 | \$0 |
| 16. OIG-08-16 | 12/07 | State of Colorado Homeland Security Grant Program | \$7,817,015 | \$0 | \$0 |
| 17. OIG-08-17 | 11/07 | Independent Auditor's Report on DHS' FY 2007 Special-Purpose Financial Statements | \$0 | \$0 | \$0 |
| 18. OIG-08-18 | 12/07 | The Removal of a Canadian Citizen to Syria (Unclassified Summary) | \$0 | \$0 | \$0 |
| 19. OIG-08-19 | 12/07 | DHS' Domestic Nuclear Detection Office Progress in Integrating Detection Capabilities and Response Protocols | \$0 | \$0 | \$0 |
| 20. OIG-08-20 | 12/07 | The State of Florida's Management of State Homeland Security Grants Awarded During Fiscal Years 2002 through 2004 | \$517,782 | \$0 | \$0 |
| 21. OIG-08-21 | 1/08 | A Review of the World Trade Center Captive Insurance Company | \$0 | \$0 | \$0 |

Appendix 3

Management Reports Issued (continued)

| Report Number | Date Issued | Report Title | Questioned Costs | Unsupported Costs | Funds Put to Better Use |
|---------------|-------------|--|------------------|-------------------|-------------------------|
| 22. OIG-08-22 | 1/08 | The State of Georgia's Management of State Homeland Security Grants Awarded During Fiscal Years 2002 through 2004 | \$23,300,000 | \$16,500,000 | \$0 |
| 23. OIG-08-23 | 2/08 | Review of FEMA's Use of Proceeds From the Sales of Emergency Housing Units | \$13,500,000 | \$0 | \$0 |
| 24. OIG-08-24 | 2/08 | Maintenance, Rehabilitation, and Upgrading of Shore Facilities in Support of United States Coast Guard Missions | \$0 | \$0 | \$0 |
| 25. OIG-08-25 | 2/08 | Audit of Airport Passenger and Checked Baggage Screening Performance (Unclassified Summary) | \$0 | \$0 | \$0 |
| 26. OIG-08-26 | 2/08 | The State of Michigan's Management of State Homeland Security Grants Awarded During Fiscal Years 2002 through 2004 | \$33,800 | \$0 | \$0 |
| 27. OIG-08-27 | 2/08 | Status Report on Open Recommendations to DHS Components (Unclassified) | \$0 | \$0 | \$0 |
| 28. OIG-08-28 | 2/08 | The State of Ohio's Management of State Homeland Security Grants Awarded During Fiscal Years 2002 through 2004 | \$23,190 | \$0 | \$0 |

Appendix 3

Management Reports Issued (continued)

| Report Number | Date Issued | Report Title | Questioned Costs | Unsupported Costs | Funds Put to Better Use |
|---------------|-------------|---|---------------------|---------------------|-------------------------|
| 29. OIG-08-29 | 2/08 | The DHS Process for Nominating Individuals to the Consolidated Terrorist Watchlist | \$0 | \$0 | \$0 |
| 30. OIG-08-30 | 2/08 | Annual Review of Mission Performance United States Coast Guard (FY 2006) | \$0 | \$0 | \$0 |
| 31. OIG-08-31 | 3/08 | Letter Report: DHS Needs to Prioritize Its Cyber Assets (Redacted Version) | \$0 | \$0 | \$0 |
| 32. OIG-08-32 | 3/08 | Federal and State Oversight of the New York City Urban Area Security Initiative Grant Program | \$1,150,000 | \$0 | \$0 |
| 33. OIG-08-33 | 3/08 | Management Advisory Report – FEMA Emergency Housing Units Property Management | \$0 | \$0 | \$0 |
| 34. OIG-08-34 | 3/08 | FEMA's Preparedness for the Next Catastrophic Disaster | \$0 | \$0 | \$0 |
| | | Total, Appendix 3 | \$47,063,104 | \$16,500,000 | \$0 |

Report Number Acronyms:

OIG Program Management Audits, Headquarters

Appendix 4

Financial Assistance Audit Reports Issued

| | Report Number | Date Issued | Auditee | Questioned Costs | Unsupported Costs | Funds Put to Better Use |
|----|---------------|-------------|---|--------------------|-------------------|-------------------------|
| 1. | DA-08-01 | 11/07 | Hurricane Jeanne Activities, Hillsborough County, Florida | \$336,786 | \$336,786 | \$0 |
| 2. | DA-08-02 | 11/07 | Hurricane Katrina Activities for City of Pascagoula, Mississippi | \$43,751 | \$0 | \$0 |
| 3. | DA-08-03 | 12/07 | Hurricane Katrina Activities for City of Ocean Springs, Mississippi | \$102,244 | \$0 | \$0 |
| 4. | DA-08-04 | 2/08 | Southern Pine Electric Power Association | \$0 | \$0 | \$0 |
| 5. | DA-08-05 | 2/08 | Hurricane Katrina Activities for Jackson County, Mississippi | \$537,130 | \$0 | \$0 |
| 6. | DD-08-01 | 1/08 | Louisiana State Grant Management Award, Public Assistance Program | \$0 | \$0 | \$0 |
| 7. | DS-08-01 | 1/08 | Interim Audit of San Diego County, California | \$0 | \$0 | \$0 |
| 8. | DS-08-02 | 3/08 | Management Advisory Report, City of Malibu, California | \$43,902 | \$40,350 | \$0 |
| 9. | DS-08-03 | 3/08 | FEMA's Management of the Public Assistance Program for Two California Disasters | \$0 | \$0 | \$0 |
| | | | Subtotal, Disaster Audits | \$1,063,813 | \$377,136 | \$0 |

Appendix 4

Financial Assistance Audit Reports Issued (continued)

| | Report Number | Date Issued | Auditee | Questioned Costs | Unsupported Costs | Funds Put to Better Use |
|-----|---------------|-------------|--------------------------------|---------------------|---------------------|-------------------------|
| 10. | OIG-S-03-08 | 11/07 | State of Missouri 2005 | \$72,004 | \$0 | \$0 |
| 11. | OIG-S-04-08 | 11/07 | State of Nebraska 2005 | \$29,932 | \$29,932 | \$0 |
| 12. | OIG-S-05-08 | 11/07 | State of Oklahoma 2005 | \$482,196 | \$482,196 | \$0 |
| 13. | OIG-S-07-08 | 11/07 | State of West Virginia 2005 | \$1,495,940 | \$1,495,940 | \$0 |
| 14. | OIG-S-08-08 | 11/07 | State of Texas 2005 | \$106,993 | \$106,993 | \$0 |
| 15. | OIG-S-10-08 | 12/07 | State of Ohio 2005 | \$61,893,834 | \$61,893,834 | \$0 |
| 16. | OIG-S-11-08 | 12/07 | State of South Carolina 2005 | \$501,046 | \$501,046 | \$0 |
| | | | Subtotal, Single Audits | \$64,581,945 | \$64,509,941 | \$0 |
| | | | Total, Appendix 4 | \$65,645,758 | \$64,887,077 | \$0 |

Notes and Explanations:

The report narratives identify 100% of the dollar amount we questioned. However, Appendix 4 reflects the actual breakdown of what the grantee is expected to deobligate or reimburse to the federal government.

Appendix 4 includes those Single Audit reports that disclosed either questioned costs or funds put to better use. All Single Audit reports issued are not listed in this Appendix. We processed a total of 12 Single Audit reports and 28 DCAA reports. DCAA reports are not listed.

Report Number Acronyms:

DA Disaster Audit, Atlanta Office
 DD Disaster Audit, Dallas Office
 DS Disaster Audit, Oakland Office
 OIG-S Single Audit report

Appendix 5

Schedule of Amounts Due and Recovered

| | Report Number | Date Issued | Auditee | Amount Due | Recovered Costs ¹ |
|-----|---------------|-------------------|--|---------------------|------------------------------|
| 1. | DA-07-07 | 1/07 | Alabama Department of Conservation and Natural Resources | \$65,409 | \$65,409 |
| 2. | DA-07-11 | 6/07 | Review of Hurricane Katrina and Wilma Activities, City of Miami, FL | \$3,817,991 | \$3,817,991 |
| 3. | DA-08-02 | 11/07 | Review of Hurricane Katrina Activities, City of Pascagoula, MS | \$681,486 | \$681,486 |
| 4. | DA-08-04 | 2/08 | Review of Hurricane Katrina Activities: Review of Southern Pine Electric Power Association | \$1,055,606 | \$1,055,606 |
| 5. | DA-08-05 | 2/08 | Review of Hurricane Katrina Activities, Jackson County, MS | \$1,012,406 | \$1,012,406 |
| 6. | DD-07-07 | 3/07 | Interim Review of Hurricane Rita Activities, Jefferson County, TX | \$239,451 | \$239,451 |
| 7. | DD-07-09 | 7/07 ⁷ | Jasper-Newton Electric Corporation, Inc. | \$11,825 | \$11,825 |
| 8. | DD-16-03 | 9/03 | City of Chicago, Illinois | \$516,665 | \$82,692 |
| 9. | DS-05-06 | 7/06 | Audit of LA City Department of Public Works | \$32,509 | \$32,509 |
| 10. | GC-TX-06-32 | 4/06 | Review of Hurricane Katrina Activities, City of Austin, TX | \$21,500,000 | \$26,034,492 |
| 11. | GC-TX-06-43 | 6/06 | Review of Hurricane Katrina Activities, Dallas Housing Authority, Dallas, TX | \$243,000 | \$331,212 |
| 12. | GC-TX-06-58 | 9/06 | Review of Hurricane Katrina Activities, City of Houston, TX | \$1,000,000 | \$1,186,760 |
| 13. | OIG-08-32 | 3/08 | Federal and State Oversight of the New York Urban Area Security Initiative Grant Program | \$1,150,000 | \$1,150,000 |
| | | | Total, Appendix 5 | \$31,326,348 | \$35,701,839 |

Report Number Acronyms: GC-Gulf Coast Disaster Audits

¹ Recoveries may be greater than the original amounts due, because of issues relating to overfunding, interest on advanced funds, or underestimation of proceeds from the disposal of excess supplies and furniture, where applicable.

Appendix 6

Contract Audit Reports¹

| Report Number/Title | Report Category | Costs Questioned | Unsupported Costs | Disallowed Costs |
|--|---|---------------------|---------------------|---|
| OIG-08-22 The State of Georgia's Management of State Homeland Security Grants Awarded During Fiscal Years 2002 through 2004 | Finding #3 – The State of Georgia did not review expenditures incurred from the prime vendor to identify overcharges and equipment delivered in error and undelivered, and did not recover costs where applicable. | \$10,100,000 | \$10,100,000 | Audit resolution was still in progress as of March 31, 2008. Amounts shown do not represent total questioned costs identified in this report. |
| | Finding #8 – The State of Georgia should not enter into agreements with local jurisdictions before having received the federal grant award, because this would obligate the State without having adequate federal funding to support the obligations. | \$10,000,000 | \$3,200,000 | Audit resolution was still in progress as of March 31, 2008. Amounts shown do not represent total questioned costs identified in this report. |
| | Total, Appendix 6 | \$20,100,000 | \$13,300,000 | Audit resolution was still in progress as of March 31, 2008. Amounts shown do not represent total questioned costs identified in this report. |

¹ The National Defense Authorization Act for FY 2008 requires that we list all contract audit reports issued during the reporting period containing significant audit findings; briefly describe the significant audit findings in the report; and specify the amounts of costs identified in the report as unsupported, questioned, or disallowed. This Act defines significant audit findings as unsupported, questioned, or disallowed costs in excess of \$10,000,000, or other findings that the IG determines to be significant. It defines contracts as a contract, an order placed under a task or delivery order contract, or a subcontract.

Appendix 7

Acronyms

| | |
|------------------|--|
| AO | Adjudication Officer |
| BPA | Border Patrol Agent |
| CBP | Customs and Border Protection |
| CBPO | Customs and Border Protection Officer |
| CIO | Chief Information Officer |
| CR&CL | Office for Civil Rights and Civil Liberties |
| DCAA | Defense Contract Audit Agency |
| DHS | Department of Homeland Security |
| DNDO | Domestic Nuclear Detection Office |
| DOJ | Department of Justice |
| EMO | Office of Emergency Management Oversight |
| FBI | Federal Bureau of Investigation |
| FDNS | Office of Fraud Detection and National Security (within CIS) |
| FEMA | Federal Emergency Management Agency |
| FLETC | Federal Law Enforcement Training Center |
| FPS | Federal Protective Service |
| FY | Fiscal Year |
| HSPD-12 | Homeland Security Presidential Directive-12 |
| ICE | United States Immigration and Customs Enforcement |
| IG | Inspector General |
| ISP | Office of Inspections |
| IT | Information Technology |
| IT-A | Office of Information Technology-Audits |
| NCTC | National Counterterrorism Center |
| OA | Office of Audits |
| OIG | Office of Inspector General |
| OPO | Office of Procurement Operations |
| PII | Personally Identifiable Information |
| TSA | Transportation Security Administration |
| TSO | Transportation Security Officer |
| USCG | United States Coast Guard |
| USCIS | United States Citizenship and Immigration Services |
| USSS | United States Secret Service |
| WTC | World Trade Center |

Appendix 8

OIG Headquarters/Field Office Contacts and Locations

Department of Homeland Security

Attn: Office of Inspector General
245 Murray Drive, SW, Bldg 410
Washington, D.C. 20528

Telephone Number (202) 254-4100
Fax Number (202) 254-4285
Website Address <http://www.dhs.gov/xoig/>

OIG Headquarters Senior Management Team

| | |
|-----------------------------|---|
| Richard L. Skinner | Inspector General |
| James L. Taylor | Deputy Inspector General |
| Matt Jadacki | Deputy Inspector General/Office of Emergency Management Oversight |
| Richard N. Reback | Counsel to the Inspector General |
| Anne L. Richards | Assistant Inspector General/Audits |
| Robert M. Frost | Assistant Inspector General/Investigations |
| Carlton I. Mann | Assistant Inspector General/Inspections |
| Frank Deffer | Assistant Inspector General/Information Technology Audits |
| Edward F. Cincinnati | Assistant Inspector General/Administration |
| Tamara Faulkner | Congressional Liaison and Media Affairs |
| Denise S. Johnson | Executive Assistant to the Inspector General |

Appendix 8

OIG Headquarters/Field Office Contacts and Locations (continued)

Locations of Audit Field Offices

Boston, MA

Boston, MA 02222
(617) 565-8700 / Fax (617) 565-8955

Chicago, IL

Chicago, IL 60603
(312) 886-6300 / Fax (312) 886-6308

Houston, TX

Houston, TX 77057(713) 706-4611 / Fax
(713) 706-4625

Miami, FL

Miramar, FL 33027
(954) 538-7842 / Fax (954) 602-1033

Philadelphia, PA

Marlton, NJ 08053-1521
(856) 596-3810 / Fax (856) 810-3412

Locations of Emergency Management Oversight Field Offices

Atlanta, GA

Atlanta, GA 30309
(404) 832-6701/ Fax (404) 832-6645

Biloxi, MS

Biloxi, MS 39531
(228) 385-5605 / Fax (228) 385-1714
(228) 385-1277 (Investigations)

Dallas, TX

Denton, TX 76208
(940) 891-8900 / Fax (940) 891-8948

New Orleans, LA

New Orleans, LA 70114
(504) 762-2164/ Fax (504) 762-2873

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Oakland, CA 94612
(510) 637-4311 / Fax (510) 637-1484

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(787) 294-2500 / Fax (787) 771-3620

Locations of Investigative Field Offices

Arlington, VA 22209

(703) 235-0848 / Fax: (703) 235-0854

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(404) 832-6646

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San Juan, PR 00918
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St. Thomas, VI

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Tucson, AZ

Tucson, AZ 85741
(520) 229-6420 / Fax: (520) 742-7192

Yuma, AZ

Yuma, AZ 85365
(928) 314-9640 / Fax: (928) 314-9640

Appendix 9

Index to Reporting Requirements

The specific reporting requirements described in the *Inspector General Act of 1978*, as amended, are listed below with a reference to the SAR pages on which they are addressed.

| Requirement: | Pages |
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| Review of Legislation and Regulations | 32 |
| Significant Problems, Abuses, and Deficiencies | 10-29 |
| Recommendations with Significant Problems | 10-29 |
| Prior Recommendations Not Yet Implemented | 30-31 |
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| Summary of Instances Where Information Was Refused | N/A |
| List of Audit Reports | 40-46 |
| Summary of Significant Audits | 10-29 |
| Reports with Questioned Costs | 40-46 |
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| Summary of Reports in Which No Management Decision Was Made | 37-38 |
| Revised Management Decisions | N/A |
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- Call our Hotline at 1-800-323-8603;
- Fax the complaint directly to us at (202) 254-4292;
- Email us at DHSOIGHOTLINE@dhs.gov; or
- Write to us at:
DHS Office of Inspector General/MAIL STOP 2600,
Attention: Office of Investigations - Hotline, 245 Murray Drive SW,
Building 410, Washington, DC 20528.

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