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DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General



SEMIANNUAL REPORT TO THE CONGRESS

October 1, 2005 – March 31, 2006

Working Relationship Principles For Agencies and Offices of Inspector General

The Inspector General (IG) Act establishes for most agencies an Office of Inspector General (OIG) and sets out its mission, responsibilities, and authority. The IG is under the general supervision of the agency head. The unique nature of the IG 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.

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.



May 1, 2006

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

Dear Mr. Secretary:

I am pleased to present our semiannual report, which summarizes the activities and accomplishments of the Department of Homeland Security (DHS) Office of Inspector General (OIG) for the six-month period ending March 31, 2006.

During this reporting period, our office issued 29 management reports (audits and inspections). Our office also issued 29 Gulf Coast hurricane recovery related reports. In addition, we processed 127 reports on DHS programs that were issued by other organizations. As a result of these efforts, \$19 million of questioned costs were identified, of which \$926,000 were determined to be unsupported. In addition, \$74 million of funds that could be put to better use were identified. I am most satisfied, however, with the positive response our reports have received from departmental management. This is demonstrated by the fact that departmental managers have concurred with approximately 90% of our recommendations.

In the investigative area, we issued 163 reports. Our investigations resulted in 200 arrests, 250 indictments, and 123 convictions. Our investigators closed 176 investigations and 7,599 complaints received through the hotline. Additionally, investigative recoveries, fines, restitutions and cost savings totaled \$14 million.

As we close this reporting period, the department faces the unprecedented challenge of continuing to focus on its mission, while coordinating recovery efforts in the wake of Hurricane Katrina, the costliest natural disaster in our nation's history. Our office will continue to work with and assist DHS program managers in ensuring that the billions of dollars targeted to support the recovery and reconstruction effort, are spent wisely and in the most effective manner possible.

In closing, I would like to thank all of the hardworking and dedicated professionals in the DHS OIG. As a result of their efforts, we were able to successfully meet the tremendous challenges that faced our office during the past six months. Their selfless dedication to

service, oftentimes at the expense of time with family and friends, has not gone unnoticed and is truly commendable.

I also would like to take this opportunity to thank you for the interest and support that you have provided to our office to date. We look forward to working closely with you, your leadership team, and the 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 very challenging months ahead.

Sincerely,

A handwritten signature in cursive script that reads "Richard L. Skinner".

Richard L. Skinner
Inspector General

TABLE OF CONTENTS

STATISTICAL HIGHLIGHTS OF OIG ACTIVITIES..... 2

EXECUTIVE SUMMARY..... 3

DEPARTMENT OF HOMELAND SECURITY PROFILE..... 4

OFFICE OF INSPECTOR GENERAL PROFILE..... 5

SUMMARY OF SIGNIFICANT OIG ACTIVITY..... 6

Gulf Coast Hurricane Recovery 6

Civil Rights Civil Liberties..... 18

Customs and Border Protection..... 19

Federal Emergency Management Agency..... 25

Immigration and Customs Enforcement..... 28

Management..... 30

Office of Security..... 36

Preparedness..... 37

Science & Technology..... 40

Transportation Security Administration..... 41

United States Citizenship and Immigration Services..... 46

United States Coast Guard..... 50

US-VISIT..... 51

OTHER OIG ACTIVITIES..... 52

LEGISLATIVE AND REGULATORY REVIEW..... 54

CONGRESSIONAL BRIEFINGS AND TESTIMONY..... 54

APPENDICES..... 57

Appendix 1..... Audit Reports with Questioned Costs..... 58

Appendix 1b..... Audit Reports with Funds Put to Better Use..... 60

Appendix 2..... Compliance - Resolution of Reports and Recommendations..... 61

Appendix 3..... Management Reports Issued..... 62

Appendix 4..... Financial Assistance Audit Reports Issued..... 66

Appendix 5..... Schedule of Amounts Due and Recovered..... 73

Appendix 6..... Acronyms..... 74

Appendix 7..... OIG Headquarters and Field Office Contacts and Locations..... 76

Appendix 8..... Index to Reporting Requirements..... 81

STATISTICAL HIGHLIGHT OF OIG ACTIVITIES

October 1, 2005 – March 31, 2006

Dollar Impact

Questioned Costs ¹	\$18,988,196
Funds Put to Better Use ²	\$74,029,369
Management Agreement That Funds Be:	
Recovered.....	\$0
De-obligated.....	\$0
Funds Recovered (Audit & Investigative).....	\$6,080,718
Fines and Restitutions.....	\$6,546,973
Administrative Cost Savings and Recoveries.....	\$1,624,500

Activities

Management Reports Issued	29
Gulf Coast Hurricane Recovery Related Reports Issued.....	29
Investigation Reports Issued	163
Grant and Contract Audit Reports Issued.....	3
Single Audit Reports Processed.....	59
Defense Contract Audit Agency.....	68
Investigations Initiated.....	836
Investigations Closed.....	176
Open Investigations.....	1,761
Investigations Referred for Prosecution.....	112
Investigations Accepted for Prosecution.....	180
Investigations Declined for Prosecution.....	38
Arrests.....	200
Indictments.....	250
Convictions.....	123
Personnel Actions.....	13
Total Complaints Received.....	11,460
Total Hotlines Received.....	10,432
Complaints Referred (to programs or other agencies).....	3,869
Complaints Closed.....	7,599

¹ This amount includes \$12,152,950 identified by our Office of Gulf Coast Hurricane Recovery.

² This amount includes \$3,669,862 identified by our Office of Gulf Coast Hurricane Recovery and \$70,359,507 of questioned costs on contract proposals identified by DCAA.

EXECUTIVE SUMMARY

This is the seventh semiannual report to Congress issued by the Department of Homeland Security (DHS) Office of Inspector General (OIG) 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, 2005, to March 31, 2006. The report is organized to reflect our organization and that of DHS.

During this reporting period, we completed significant audit, inspection, and investigative work to promote the economy, efficiency, effectiveness, and integrity of DHS programs and operations. Specifically, we issued 29 management reports (Appendix 3) and 163 investigative reports. Our Gulf Coast Hurricane Recovery office issued 29 hurricane recovery related reports (Appendix 4). Additionally, we processed 127 reports on DHS programs - 68 audits issued by the Defense Contract Audit Agency (DCAA), and 59 single grant audits which were issued by other organizations according to the *Single Audit Act of 1984*, as amended (Appendix 4). Our reports provide the DHS Secretary and Congress with an objective assessment of the issues, while at the same time providing specific recommendations to correct deficiencies and improve the economy, efficiency, and effectiveness of the respective program.

During this reporting period audits resulted in questioned costs of \$18,988,196 of which \$926,057 was determined to be unsupported costs. In addition, \$74 million of funds that could be put to better use were identified. Our investigations resulted in 200 arrests, 250 indictments, and 123 convictions. Moreover our investigators closed 176 investigations and 7,599 complaints received through the hotline. Additionally, recoveries, restitutions, and fines and cost savings totaled \$14,252,191.

We have a dual reporting responsibility to Congress as well as to the Secretary. During the reporting period, we continued our active engagement with Congress through numerous meetings, briefings, and dialogues with members and staff of the department's authorizing and appropriations committees and subcommittees on a range of issues relating to our work and that of the DHS. We also testified before Congress on eight occasions during this reporting period. 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* (PL 107-296, as amended), officially establishing 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 180,000 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 re-organized into the following directorates:

Management
Policy³
Preparedness
Science and Technology

Other critical components of DHS include:

Domestic Nuclear Detection Office
Federal Emergency Management Agency
Federal Law Enforcement Training Center
Office for Civil Rights and Civil Liberties
Office of Intelligence and Analysis
Office of Operations Coordination
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

³ The Office of Policy is in the process of becoming a directorate.

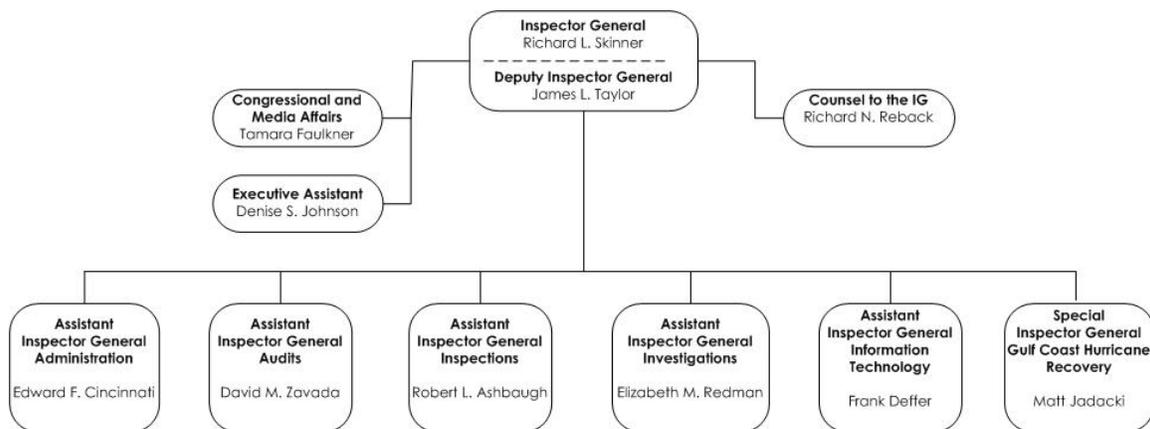
OFFICE OF INSPECTOR GENERAL PROFILE

The *Homeland Security Act of 2002* provided for the establishment of an 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 (IG) 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 IG’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 are authorized to have 540 full-time employees. We currently have approximately 100 employees providing audit and investigative oversight of Gulf Coast Hurricane Recovery operations. We are comprised of six functional components. We are based in the District of Columbia and have 26 permanent field offices throughout the country. In addition, we have seven temporary field offices dedicated to Gulf Coast Hurricane Recovery oversight operations.

Department of Homeland Security Office of Inspector General Management Team



SUMMARY OF SIGNIFICANT OIG ACTIVITY

GULF COAST HURRICANE RECOVERY

A Performance Review of FEMA's Disaster Management Activities in Response to Hurricane Katrina

We conducted a review of the Federal Emergency Management Agency's (FEMA) activities in response to Hurricane Katrina in which we examined FEMA's responsibilities for three of the four major phases of disaster management – preparedness, response, and recovery – during the first five weeks of the federal response. We reviewed whether FEMA's authorities, plans and procedures, organizational structure, and resources were adequate and effective. In addition, we evaluated FEMA's preparedness and readiness efforts over the past ten years to determine its organizational capability and posture prior to Hurricane Katrina.

Within the past two years, the DHS published the National Incident Management System and the National Response Plan, restructuring how federal, state, and local government agencies and emergency responders conduct disaster preparation, response, and recovery activities. Implementation of both documents was still underway when Hurricane Katrina made landfall. FEMA's initial response was significantly impeded by the adjustments it was making in implementing its responsibilities under the National Response Plan.

The Hurricane Katrina response demonstrated some positive features of the incident command structure under the National Incident Management System; however, it also highlighted severe deficiencies and multiple areas where FEMA and DHS headquarters must make adjustments to the National Response Plan. When compared to other disasters, FEMA provided record levels of support to Hurricane Katrina victims, states, and emergency responders. However, a lack of visibility in the resource ordering process, difficulty deploying sufficient numbers of trained personnel, and unreliable communication systems demonstrate a need for improved response support capabilities.

FEMA's efforts to support state emergency management and to prepare for federal response and recovery in natural disasters were insufficient for an event of Hurricane Katrina's magnitude. Difficulties experienced during the response directly correlate with weaknesses in FEMA's grant programs, staffing, training, catastrophic planning, and remediation of issues identified during previous disasters and exercises.

Finally, the integration of FEMA, all hazards preparedness, and disaster response and recovery capabilities within DHS requires additional attention. Although an "all-hazards"

October 1, 2005 – March 31, 2006

approach can address preparedness needs common to both man-made and natural events, DHS must ensure that all four phases of emergency management – preparedness, response, recovery, and mitigation – are managed throughout the department on an all-hazards basis.

We made 38 recommendations, to DHS headquarters and FEMA, to improve emergency management capabilities, which include establishing measurable expectations of FEMA's response; providing the necessary financial, technical, and staff support to meet them; assessing FEMA's readiness; clarifying how DHS headquarters, FEMA, and other DHS components will implement aspects of the National Response Plan; addressing improvements to FEMA's infrastructure for resource ordering and tracking, personnel deployment, disaster communications, and handling disaster applications; completing catastrophic, surge, and workforce plans; adding training; strengthening the remedial action program; building relationships with the states in concert with the Preparedness Directorate and DHS' Public Affairs; and modifying how FEMA manages disaster assistance. (OIG-06-32, March 2006, ISP)

Review of the Proposed Interagency Housing Agreement with the Department of Veteran Affairs

The Department of Veterans Affairs had begun work and was incurring costs pursuant to a proposed \$28.4 million interagency housing agreement with the FEMA. However, as of October 13, 2005, the Baton Rouge joint field office contracting officer had not executed the agreement, and FEMA Headquarters officials were still reviewing the agreement as to whether it was appropriate under the Stafford Act. Meanwhile, the Department of Veterans Affairs had already incurred costs for preparation of 35 housing units and had lost potential sales proceeds for over 2,800 properties that were off the market to make them available for occupancy by the evacuees.

To ensure that disaster relief funds are expended in the most effective way, we recommended that the Principal Federal Officer for Hurricane Katrina direct the contracting officer to notify the Department of Veterans Affairs to cease work under the proposed agreement or continue work at their own risk. (GC-LA-06-02, October 2005)

Changes in State of Louisiana Compensation Policies

Within three weeks following the Hurricane Katrina disaster, the State of Louisiana made two changes in their compensation policies to provide increased compensation to State employees performing work related to Hurricane Katrina. The increased costs are not eligible for FEMA reimbursement under the Office of Management and Budget's criteria for cost principles that require consistency in compensation between federally funded and non-federally funded activities.

Department of Homeland Security

One of the two changes authorized state agencies to increase wages for classified positions up to \$15 per hour for work directly related to Hurricane Katrina. The other change authorized state agencies to provide overtime at a rate of one-and-one-half times to employees who were previously exempt from the Fair Labor Standards Act overtime provisions.

We recommended that the Deputy Federal Coordinating Officer for Hurricane Katrina in Louisiana notify FEMA and state personnel responsible for preparing and reviewing project worksheets that increased costs resulting from the State's two new policies are not eligible for reimbursement under any of the FEMA disaster grant programs. (GC-LA-06-04, October 2005)

Clearbrook, LLC Billing Errors under Contract Number HSFE-06-05-F-6232

Clearbrook LLC (Clearbrook) provides food and base camp lodging services to Hurricane Katrina disaster responders at seven base camps throughout Louisiana. As of September 28, 2005, Clearbrook billed and FEMA paid \$34 million of the \$80 million contract.

There were several problems with the contract and its billings. First, the initial payment of \$4.9 million was paid for work performed before the effective date of the contract. Second, the contractor's billings were mathematically inaccurate, indicating over \$3 million in overcharges. Third, the billings were based on a time and material plus fixed per diem rate when the contract appeared to be an \$80 million fixed price contract. Finally, the contract has few terms, conditions, or prices. The scope of work contains no details and there was a lack of documentation supporting price reasonableness.

We recommended that the Principal Federal Officer for Hurricane Katrina direct the Joint Field Office FEMA Contracting Officer to suspend payments on the contract until FEMA contracting officials resolved these issues. (GC-LA-06-07, November 2005)

Management Advisory Report on Invoices Submitted Under Order HSFEHQ-06-F-0047 by Corporate Lodging Consultants, Inc.

FEMA awarded a task order under a blanket purchase agreement with Corporate Lodging Consultants, Inc. (CLC) to provide emergency lodging for Katrina evacuees. The task order was for 4,000,000 room nights of emergency lodging and, according to the terms of the blanket purchase agreement, CLC would be paid \$2.48 per room night. The actual lodging costs were to be paid separately. The purpose of our review was to determine whether FEMA had used effective contract management processes to award and administer this task order.

October 1, 2005 – March 31, 2006

The blanket purchasing agreement provided fixed rates per room night for CLC's services with lodging costs priced separately at cost. The blanket purchasing agreement did not provide any mechanisms to control lodging costs. The task order contained an estimate of \$60 per room night; however, it was not a mandatory cap.

Our review of a sample of three invoices submitted by CLC disclosed that the average room rate for 126,000 rooms was nearly \$70, or more than \$10 over the estimated daily amount of \$60 in the task order.

In some instances, the room rates were excessive compared to the contract's estimated cost, but were consistent with the hotel's published price. For example, CLC paid a hotel in New York City its published rate of \$438.00 per night. A condominium charged from \$330 to \$375 per night for beachfront condominiums in Panama City, Florida. A motel in downtown Chicago charged up to \$399 per night. As late as December 7, 2005, FEMA was still paying relatively high prices – up to \$364 per night at a hotel in San Diego, CA and up to \$339 per night at a hotel in New Orleans, LA.

We made three recommendations to FEMA: (1) require that the contractor continue to obtain appropriate credits to hotel billings where room charges were higher than published room rates plus applicable taxes; (2) request that the General Services Administration (GSA) modify the contract to provide incentives for meeting contract cost estimates and/or penalties for failing to meet contract cost estimates; and (3) work with the CLC and/or the American Red Cross to revise the process for selecting hotels to prevent excessive per night room charges. (GC-HQ-06-09, February 2006)

Strengthening Registration Intake Controls

We evaluated the effectiveness of procedures governing the process that applicants use to register for individual disaster assistance. Eligibility verification controls were weakened because employees often times overrode established registration intake processes. For example, some reviewing employees had approved applications for payment without thoroughly verifying that the information was correct and that there was no duplication.

We recognize that some controls were eased to expedite assistance to as many applicants as possible. However, because the majority of victims had been registered, we recommended FEMA reinstate its established internal controls for registering applicants. (GC-HQ-06-10, February 2006)

Department of Homeland Security

Management Advisory Report on the Acquisition of Cruise Ships for Hurricane Katrina Evacuees

FEMA leased four cruise ships to provide immediate housing for Hurricane Katrina evacuees. We reviewed the reasonableness of FEMA's decision to lease the cruise ships and the major contract requirements. We also performed a limited analysis of the cost efficiency of using the cruise ships for temporary housing.

Our limited analysis showed that as of November 2005, the weekly GSA per diem rate per person staying in the New Orleans area was about \$1,282, and about \$770 in Alabama and Mississippi. The average weekly cost per person on the cruise ships, at full occupancy, was \$1,177.

Using this analysis, the overall occupancy rate for the cruise ships would have to be more than 95 percent to be more cost effective than the per diem rates. During the first 30 days, when the average occupancy for the ships was about 35 percent, FEMA paid \$3,300 per evacuee per week. That was three times the average per diem rate. Subsequently, the average occupancy for the cruise ships ranged from 82 to 92 percent.

FEMA's decision to lease the cruise ships was reasonable under the circumstances, although FEMA might have been wise to lease the ships for three months rather than six. Our limited analysis of cost efficiency indicated that the cruise ships might be cost efficient for a high-cost area like New Orleans as long as a high occupancy rate is maintained. Unfortunately, several problems kept the occupancy rate low in the first weeks after the disaster. Cruise ships are high-cost options in Mississippi and Alabama where costs are low.

We recommended that FEMA not renew the contracts for the cruise ships.
(GC-HQ-06-11, February 2006)

Mobile Homes and Modular Homes at Hope and Red River

As a part of our oversight of temporary housing in response to Hurricanes Katrina and Rita, we reviewed procedures used by FEMA to accept and maintain manufactured and modular homes staged at Hope, Arkansas, and Red River Army Depot in Texarkana, Texas. Our objectives were to determine whether FEMA established reasonable requirements for these types of housing units and to evaluate the current arrangements for storing them.

We visited Hope and Red River staging areas. During our visit to Hope, we noted some minor damages to some of the homes, which occurred during delivery. Other homes were

October 1, 2005 – March 31, 2006

beginning to sink in the mud from heavy rainfall at the site. Frames of some of the larger homes were beginning to warp from being stored on wheeled trailers without adequate support. Furthermore, and most disturbing, FEMA did not have a plan for how the homes would be used before they purchased them.

We recommended that FEMA: (1) develop a comprehensive plan that will set forth the most cost effective way to use, or dispose of, the manufactured and modular homes; (2) continue to monitor all storage sites to ensure that homes are properly maintained to mitigate deterioration and inventory those that may have already been damaged and make the necessary repairs; (3) recoup from the manufacturers repair costs for damages that were caused by the manufacturer during delivery; and (4) for future disasters, develop written policies, procedures, and plans to govern the acquisition and use of mobile and modular homes. These policies should prohibit the procurement of oversized mobile homes that do not meet FEMA's specifications. Also, FEMA should work with state and local governments to identify prearranged sites that could be used for mobile homes. FEMA should not wait until a disaster strikes to identify possible sites for the homes. (GC-HQ-06-12, February 2006)

FEMA Should Invest Funds Associated with Grant EMW-2006-GR-0056

In the aftermath of Hurricane Katrina, a number of foreign governments and international entities donated over \$100 million to help assist Hurricane Katrina victims. From these funds, DHS/FEMA awarded a \$66 million grant to the National Case Management Consortium to provide case management services for displaced persons affected by Hurricane Katrina. Because the vast majority of the grant would be disbursed over an extended period of time as reimbursement for expenses, the funds held by FEMA could average more than \$30 million per day over the life of the grant. Therefore, we recommended that the funds held by FEMA be invested in public debt securities and that the \$2.5 million interest income earned be used to further assist Hurricane Katrina victims. (GC-HQ-06-13, February 2006)

Management Advisory Report on Armed Guard Services Provided by Blackwater Security Consulting, LLC under Contract HSCEFC-05-J-F00002

Shortly after Hurricane Katrina hit New Orleans, FEMA officials requested guard services from the Federal Protective Service (FPS) for FEMA facilities, i.e., disaster response centers, disaster medical assistance teams, and the New Orleans and Louisiana field offices. FPS contracted with Blackwater Security Consulting, LLC to provide armed guard services. We reviewed the Blackwater Security contract and related correspondence to determine whether the contract was appropriate and the costs were reasonable.

Department of Homeland Security

FPS officials said that they customarily use contract guard services for static guard posts at FEMA facilities during disaster assistance operations so that FPS and other police officers can remain mobile to respond to requests for law enforcement assistance.

FPS solicited offers from two companies listed on the GSA federal supply schedule to provide armed guard services for the facilities. Blackwater offered services at \$950 per staff-day, which was a 5 percent discount from its federal supply schedule rate and lower than the rate from the other solicited vendor. FPS officials considered this the best value to the government and believed that Blackwater's past performance under other contracts and current performance under contracts with the Department of State demonstrated its capability to perform under the conditions of this contract.

Under the circumstances, there was not sufficient time for FPS to conduct a comprehensive needs assessment, issue an invitation for bids, and conduct an open competition. The action that FPS officials took, obtaining already approved offers from federal supply schedule listings, was an accepted method of obtaining goods or services and generally superior to the often-used option of a sole source contract. Moreover, FPS obtained a negotiated rate that was lower than Blackwater's federal supply schedule rate. Consequently, the contracting methodology and price were appropriate under these urgent circumstances.

However, there may now be opportunities to reduce the cost of guard services. FEMA expects that guard services will be required for two to five years for some facilities. Armed guards at all locations may not be required. A mixture of armed and unarmed guards may meet security requirements. Unarmed guards generally cost less than armed guards. It is possible that lower-cost guard services can be obtained through the use of full and open competition.

We recommended that FEMA conduct a needs assessment of guard services required by FEMA facilities, including the need for armed and unarmed guards. We also recommended that FEMA conduct a full and open competition to meet all long-term requirements for armed and unarmed guard services. (GC-HQ-06-17, March 2006)

Indirect Costs under Grant Agreement Number EMW-2006-GR-0056 with United Methodist Committee on Relief/Emergency Services International

Our review of FEMA's grant to the National Case Management Consortium to provide case management services for displaced persons affected by Hurricane Katrina raised questions as to whether the approved budget might result in duplicative payments for rent, executive salaries, and a variety of administrative functions. As such, we recommended that the grant be amended to eliminate \$580,925 in indirect charges and increase the budget for actual direct charges that were previously included in the indirect

October 1, 2005 – March 31, 2006

costs rate. Any remaining funds should be made available for program operations. All parties considered this solution fair and equitable. (GC-HQ-06-19, March 2006)

FEMA Trailers at Pontchartrain Guest House

We reviewed an allegation that 16 travel trailers, provided by FEMA to a Louisiana nursing facility to house its workers, were not being used. The trailers were provided to Gulf South Medical Enterprise, which operates the Pontchartrain Guest House, a nursing facility in Mandeville, Louisiana. The trailers were to house staff that were also Hurricane Katrina evacuees. We determined that 15 vacant FEMA travel trailers located behind the Pontchartrain Guest House, not 16 as stated in the allegation, were not hooked up to power, water, or sewer sources, and had never been used.

We recommended that FEMA recover the vacant trailers and place them back in FEMA's inventory. (GC-HQ-06-23, March 2006)

Review Hurricane Katrina Activities City of Biloxi, Mississippi FEMA Disaster No 1604-DR-MS

The City of Biloxi received an award of \$41.4 million for emergency protective measures and the removal of debris necessitated by Hurricane Katrina. The City was properly accounting for grant funds. However, the FEMA award and City records reflected \$1.9 million for debris removal from Federal aid roads, which are the responsibility of the Federal Highway Administration. Additionally, the City earned \$23,874 of interest on FEMA funds that were provided as an advance to the City. Pursuant to federal regulations, these funds must be returned to the federal treasury.

We recommended that the Federal Coordinating Officer disallow the \$1.9 million of ineligible debris removal costs and obtain the \$23,874 of interest earned on the FEMA advance. (GC-MS-HQ-25, February 2006)

GULF COAST HURRICANE RECOVERY- INVESTIGATIONS

Our investigators continue to be active participants on the Department of Justice (DOJ) Fraud Task Force established by the U.S. Attorney General on September 8, 2005. Investigators have also been deployed to each of the joint field offices in Alabama, Mississippi, Louisiana, Texas and Florida to provide technical assistance to FEMA, state, and local officials. During this reporting period, we conducted 466 investigations, which resulted in 140 indictments, 117 arrests, and 40 convictions. The following are a few examples of Katrina related investigations initiated through the Hurricane Relief Fraud Hotline and other sources.

Department of Homeland Security

Subject Charged with FEMA Fraud and Threatening a Witness

Our investigation disclosed that the subject filed two separate false claims related to Hurricane Katrina and received approximately \$8,716. In both instances the subject claimed to have lived in a suburb of New Orleans, LA, when in fact the subject did not reside there. In addition, the subject assisted and became a facilitator for at least eight other subjects who filed false claims for disaster assistance. The subject filed the claims for the individuals and had the checks sent to either the subject's home address or the address of a friend. When the checks arrived, the subject accompanied the recipient to the bank to cash the check and received a "handling fee" from the applicant, usually about \$500. Just prior to a scheduled grand jury hearing to seek an indictment, the subject used a weapon in making a threat against a witness who had agreed to testify against the subject at trial. The subject was indicted on four counts of 18 USC §641 (*Theft of Government Property*), and one count of 18 USC §1512 (*Witness Tampering*). The subject was arrested without incident and is awaiting trial.

Subject Charged with Filing Multiple Disaster Assistance Claims

We conducted a joint investigation with the United States Secret Service (USSS) involving a subject who was responsible for the filing of multiple claims for disaster assistance. The subject opened a bank account and deposited about a dozen FEMA disaster assistance checks. These checks were made out to other individuals and mailed to either of two addresses the subject used. The subject recruited and used the names of local homeless people, filed the FEMA claims in their names, and had the checks sent to him. The fraud totaled approximately \$47,000. The subject has entered a guilty plea to defrauding FEMA and is awaiting sentencing.

False Disaster Assistance Claim in Atlanta, Georgia

A resident of Atlanta, GA, filed a claim for disaster assistance claiming an address in New Orleans, LA, as the primary residence. Our investigation disclosed that the address claimed was the primary Post Office building in downtown New Orleans and not a residence. The subject was indicted on one count of 18 USC §287 (*False Claim*) and arrested without incident.

FEMA Recipient Commits \$70,000 in Disaster Unemployment Assistance Fraud

A joint investigation with the Department of Labor OIG resulted in the subject admitting to the receipt of \$70,000 from the Disaster Unemployment Assistance program administered by the Louisiana Department of Labor funded through FEMA. The subject was arrested and waived his indictment pending his cooperation in providing information

regarding the involvement of other individuals in fraudulently obtaining benefits from FEMA.

Former IRS Employee Pleads Guilty to Defrauding FEMA

A joint investigation with the Treasury Inspector General for Tax Administration determined that an Internal Revenue Service employee falsely claimed to be a victim of Hurricane Katrina. The revenue officer pleaded guilty to 18 USC §287 (*False Claim*) against the U.S. Government and his employment was terminated. He is currently awaiting sentencing.

Fugitive Pleads Guilty to Defrauding FEMA

Our investigation determined that a man claiming to be a Louisiana evacuee from Hurricane Katrina was, in fact, a fugitive from Illinois on marijuana charges. He pleaded guilty in Houston, Texas, to 18 USC §287 (*False Claim*). He is currently awaiting sentencing.

Parolee Arrested for Defrauding FEMA

Our investigation determined that a parolee living in a halfway house in Beaumont, Texas, falsely claimed to be a victim of Hurricane Rita. He was arrested for filing a false claim against the U.S. Government, and his parole was revoked. He has not yet entered a plea on the false claim charges filed against him.

Hotel Owner Charged With Defrauding FEMA

A joint investigation with the USSS resulted in a 39-count indictment against the owner of a hotel with 22 counts of 18 USC §1343 (*Wire Fraud*) and 17 counts of filing false claims under 18 USC §287 (*False Claim*). The owner was arrested and released on a \$75,000 bond. The owner is accused of wire fraud and filing false claims totaling at least \$232,000 in connection with disaster relief lodging programs for hurricane evacuees funded by FEMA's Public Assistance Program.

Two Temporary FEMA Employees Arrested

A joint investigation with the Federal Bureau of Investigations (FBI) resulted in the arrest of two temporary FEMA employees under 18 USC §201 (*Bribery of Public Officials and Witnesses*) for soliciting bribes from a contractor supplying food for residents displaced by Hurricane Katrina. Both ran a FEMA camp near New Orleans and asked for a \$20,000 bribe in exchange for inflating the catering contract. Trial is pending. This is the first case of FEMA employees being arrested on fraud charges after Katrina.

Department of Homeland Security

Dallas Residents Arrested For Katrina Fraud

A joint investigation with the Department of Labor's OIG, the U. S. Postal Service and the Louisiana Department of Labor has resulted in the arrest of numerous Dallas residents under 18 USC §287 (*False Claim*) for stealing more than \$80,000 in FEMA funds by filing false claims. One resident devised a scheme to impersonate hurricane evacuees and defraud FEMA out of thousands of dollars. He filed the fraudulent claims with FEMA and the Louisiana Department of Labor using the identities - including names and Social Security numbers - of other people, many of them with a similar surname as his, without their consent. Co-conspirators have been arrested on conspiracy charges to defraud the United States and are pending trial.

Three Oklahoma Residents Indicted For Conspiring To Defraud FEMA

A joint investigation with the USSS and the Postal Inspection Service resulted in a superseding indictment under 18 USC §287 (*False Claim*) for conspiring to defraud the United States of Hurricane Katrina disaster relief funds and stealing FEMA funds. According to the superseding indictment, all of the defendants were involved in a conspiracy in September and October of 2005 to obtain \$2,000 Hurricane Katrina disaster relief payments through FEMA's internet website for individuals who were not eligible for or entitled to those funds. The superseding indictment alleges that two of the residents recruited other conspirators, who were required to provide a portion of the proceeds of disaster assistance payments to them in exchange for the opportunity to participate in the scheme.

Four Indicted for Hurricane Relief Fraud

We conducted a joint investigation with the USSS targeting four suspects who knowingly devised a scheme to defraud FEMA by misrepresenting themselves as evacuees from Hurricane Katrina. Their false statements resulted in FEMA paying out \$20,425 in false claims. On March 1, 2006, a federal grand jury indicted the four suspects for violations of: 18 USC §1343 (*Wire Fraud*), 18 USC §1341 (*Mail Fraud*), and 18 USC §641 (*Theft of Government Property*). On March 3, 2006, the suspects were arrested pursuant to the indictments.

Eleven Indicted for Hurricane Relief Fraud

We conducted a joint investigation with the FBI and the U.S. Postal Inspection Service, which identified 485 suspected fraudulent FEMA applicants residing in Oregon. To date the investigation has identified 11 suspects who are responsible for filing 253 fraudulent Hurricane Katrina applications with FEMA, totaling \$470,406 in claims. On

October 12, 2005, and on January 27, 2006, the 11 suspects were indicted and arrested for violation of 18 USC §641 (*Theft of Government Property*).

FEMA Inspector Accused of Soliciting and Accepting Bribes

We conducted an investigation of a FEMA contract inspector who demanded bribes from applicants in exchange for increasing the amount of damage claims submitted to FEMA. The investigation revealed that numerous applicants were approached by the inspector to inflate the amount of damages in return for a kickback of a portion of the award. The inspector was indicted on charges of 18 USC §201 (*Bribery of Public Official and Witnesses*) and 18 USC §287 (*False Claims*).

FEMA Inspector Accused of Making False Statements

We conducted an investigation into allegations that a FEMA contract inspector was completing disaster applications for residences that he had not visited and forging the name of the applicant. The inspector was subsequently indicted on five counts of 18 USC §1001 (*False Statements*). The subject is currently a fugitive.

Fraudulent Hurricane Damage Applications

We conducted an investigation into the fraudulent application for FEMA Disaster Assistance resulting from Hurricanes Frances and Jeanne by residents of Broward County, Florida. This investigation resulted in the indictment and arrest of nine individuals who confessed to receiving in excess of \$63,000 in benefits. The subjects were charged in single count indictments with violations of 18 USC §287 (*False Claims*). All nine defendants have pleaded guilty.

Executive Director of a Private Non-Profit Organization Indicted for Theft of Federal Program Funds, Money Laundering, and Filing False Tax Returns

We initiated an investigation after the Internal Revenue Service's Criminal Investigation Division reported that the executive director of a private non-profit organization was suspected in the theft of federal program funds and submitting false documents to FEMA. Our investigation disclosed that the subject was suspected of submitting over \$217,000 in fraudulent claims to FEMA in connection with two disasters. On January 26, 2006, a 21-count indictment was returned charging the subject with 18 USC §666 (*Theft of Federal Program Funds*), 18 USC §1957 (*Money Laundering*), and 26 USC §7206 (*Filing False Tax Returns*). Trial is scheduled for April 6, 2006.

Department of Homeland Security

CIVIL RIGHTS AND CIVIL LIBERTIES

We received 78 Civil Rights Civil Liberties (CRCL) complaints from October 1, 2005 to present. Of those, we opened two investigations, referred 74 to CRCL with no response requested, and referred two with a 30-day response requested. During the reporting period we did not make any arrests, there were no indictments or convictions; and, none of these investigations were resolved.

Border Patrol Agent Arrested for Civil Rights Violation and False Statements

Our investigation, conducted jointly with the FBI, determined that a senior border patrol agent had sexual contact with two aliens, a mother and her minor daughter, in March 2004. The senior agent had detained the mother and her daughter for crossing the border and entering into the U.S. illegally. Our investigation also determined that the senior agent was involved in a similar incident involving another female alien in October 2005. When our agents questioned the senior agent, the senior agent lied and claimed that he had not engaged in sexual contact with the females and claimed that he had not detained the undocumented aliens. The senior agent was indicted by a federal grand jury on January 18, 2006, on one count of 18 USC §242 (*Deprivation of Rights Under Color of Law*) and one count of 18 USC §1001 (*False Statements*). Based on the indictment, he was arrested on January 20, 2006. A trial date is pending.

Two Border Patrol Agents Convicted of Assault with a Dangerous Weapon, Assault with Serious Bodily Injury, Tampering with an Official Proceeding and Deprivation of Civil Rights Under Color of Law

On March 8, 2006, as a result of our investigation into the shooting of an alien by border patrol agents, a federal jury found two agents guilty on various charges: *Assault; Discharge of Firearms in Relation to a Crime of Violence; Tampering with an Official Proceeding*; and a charge of *Deprivation of Rights under Color of Law*; pursuant to provisions of 18 USC §113; 18 USC §924; 18 USC §1512; and 18 USC §242. A number of other border patrol agents who allegedly participated in or failed to report the shooting/cover-up, but who avoided prosecution through a proffer with the United States Attorney's Office in exchange for testimony, still face administrative disciplinary action. The two agents found guilty for the unlawful shooting and cover-up will be sentenced on June 8, 2006. Each faces a possibility of life in prison.

Immigration and Customs Enforcement (ICE) Contract Detention Facility Not Negligent In Suicide

A Korean national alien detained by ICE Office of Investigations at a county corrections facility committed suicide by hanging. The detainee was incarcerated pending

deportation to Korea to face multiple charges of aggravated assault and rape. A joint review of all aspects of the incident was conducted with ICE Office of Detention and Removal, Detention Management, and the County Sheriff's Office, Special Investigations Unit. No negligent conduct on the part of any correction personnel was identified.

CUSTOMS AND BORDER PROTECTION

An Assessment of the Proposal to Merge Border Protection with Immigration and Customs Enforcement

Within the DHS, the former Border and Transportation Security directorate was charged with customs and immigration enforcement. These responsibilities were distributed between Customs and Border Protection (CBP) and ICE. Each agency shouldered responsibility for aspects of both customs and immigration enforcement. Neither agency had responsibility for the full scope of customs or immigration enforcement activities. These organizational conditions led to mismatched priorities, competition, and, at times, operational inflexibility. As a result, the Chairman of the Senate Homeland Security and Government Affairs Committee asked us to conduct a special review and make a recommendation to the Committee whether ICE and CBP should be merged.

We undertook an examination of the history of the organizations, the roles assigned to them, and the degree to which they met their interrelated goals, in the process interviewing over 600 individuals in 10 cities and 63 ICE and CBP facilities. The resulting report described a division between CBP and ICE that created a clear institutional barrier with breakdowns in coordination between apprehension and detention and removal efforts, coordination between interdiction and investigative efforts, and coordination of intelligence activities.

During the course of our review, the Secretary announced the results of his Second Stage Review. Based on the results of the Second Stage Review, he decided not to merge ICE and CBP, but instead to place them in a direct reporting relationship to the Deputy Secretary. However, he did eliminate Border and Transportation Security as an intervening directorate. In light of the Secretary's decision not to merge ICE and CBP, we made 14 recommendations to overcome the interagency coordination and integration challenges confronting ICE and CBP. (OIG-06-04, November 2005, ISP)

Audit Screening of Trucks Carrying Canadian Municipal Solid Waste

At the request of two Senators and a Representative, our office reviewed the effectiveness of CBP's screening of trucks carrying Canadian municipal solid waste. The greater Toronto, Canada area has been shipping municipal solid waste to Michigan landfills for

Department of Homeland Security

disposal since 1998. During calendar year 2004, Michigan landfills received approximately 100,000 truckloads of Canadian municipal solid waste, an 8 percent increase over calendar year 2003. Another 10,000 shipments of municipal solid waste enter the U.S. through nine other ports of entry that accept Canadian and Mexican municipal solid waste. Over the past two years, trucks carrying Canadian municipal solid waste were found to contain medical waste, illegal drugs, and illegal currency.

We determined that there are limitations in the inspections of municipal solid waste. Improvements are needed in conducting inspections and the radiation portal monitor, and Vehicle and Cargo Inspection System examinations. We recommended that the Commissioner of CBP conduct a risk analysis and develop minimum requirements for selecting and inspecting trucks carrying Canadian municipal solid waste. (OIG-06-21, January 2006, OA).

A Review of Remote Surveillance Technology Along U.S. Land Borders

We reviewed the effectiveness of the border surveillance, remote assessment, and monitoring technology used by CBP's Office of Border Patrol to detect illegal entry into the United States between official ports of entry. Despite an investment of more than \$429 million since 1997 and two major program initiatives, the Integrated Surveillance Intelligence System and America's Shield Initiative, we determined that limitations of border surveillance, remote assessment, and monitoring technology, and significant delays and cost overruns in the procurement of remote video camera systems has impeded the success of CBP's remote surveillance program.

The intelligence system's components, cameras and sensors, are not fully integrated to the extent represented at the program's onset. Cameras must be manually oriented, via toggling control keyboards, in the direction of the triggered sensor.

Deficiencies in the contract management and processes; delays in installing, testing, and bringing on-line camera sites that are operational; and failure to complete the installation of 168 camera sites resulted in more than \$37 million in DHS funds remaining in GSA accounts.

We recommended that CBP: (1) maximize integration opportunities and ensure that future remote surveillance technology investments and upgrades can be integrated; (2) standardize the process for collecting, cataloging, processing, and reporting intrusion and response data; (3) develop and apply performance measures to evaluate whether current and future technology solutions are providing force-multiplication benefits and increasing response effectiveness; (4) continue to work with GSA to resolve contract related claims, financially reconcile funding provided to GSA, and obtain the return of the unused funds to DHS; (5) develop strategies to streamline the site selection, site

October 1, 2005 – March 31, 2006

validation, and environmental assessment process to minimize delays of installing surveillance technology infrastructure; (6) expand the shared use of existing private and governmental structures to install remote surveillance technology infrastructure where possible; and, (7) continue to identify and deploy the use of non-permanent or mobile surveillance platforms. (OIG-06-15, December 2005, ISP)

CBP Officer Sentenced to One-Year Probation and Restitution

We conducted an investigation after receiving information that a probationary CBP officer sold stolen pepper spray to civilians. The officer was interviewed and admitted that sometime during the summer of 2004, while on official duty with CBP, he stole a case of pepper spray from a CBP supply room. He denied selling the spray, but rather claimed that he had given twenty-two cans of the spray to a friend who owned a local bar. On January 13, 2005, the officer resigned his position as a CBP Officer. On October 25, 2005, he pleaded guilty to a Criminal Information charging him with violation of 18 USC §641 (*Theft of Government Property*) and was sentenced to one year unsupervised probation and restitution.

CBP Canine Officer Handler Indicted for Bribery

We conducted a joint investigation with several state agencies involving a CBP canine officer handler. We arranged to have five kilograms of cocaine smuggled into the United States from Mexico through the CBP officer's inspection lane. The CBP officer was paid \$2,000 as partial payment. The CBP officer accepted the money while on duty, in uniform, and at a port of entry. Several days later, the CBP officer was paid \$3,000 as final payment. On February 22, 2006, a grand jury returned a true bill of indictment against the CBP officer for two counts of 18 USC §201 (*Bribery of Public Officials and Witnesses*). On March 8, 2006, the CBP officer was arrested.

Qui Tam Settlement Nets U.S. Government \$5,000,000

Three national food distributors and the national bank of a foreign country were charged via a Qui Tam complaint with violation of 31 USC §3730 (*False Claims Against United States*). The food distributors and individual officials of those companies, along with the bank, made financial settlements in excess of \$5,250,000 after implication in a conspiracy to ship Chilean mushrooms to the U.S. via Canada to avoid the payment of duties for the importation of foreign grown mushrooms. The foreign financial institution knowingly financed the practice to prevent the default on a \$24,000,000 loan by the bank to one of the food distributors.

Department of Homeland Security

CBP Officer Indicted For Accepting Bribes

A CBP officer was indicted for accepting fraudulent payment to facilitate the issuance of immigration documents to ineligible persons. The officer was observed meeting with persons in an undercover capacity arranging for and accepting payment to provide this service. The officer was indicted for violation of 18 USC §201 (*Bribery of Public Officials and Witnesses*) and is pending trial. The officer was still in the probationary period of his appointment with the DHS and was dismissed based on this indictment.

CBP Officer Convicted Of Smuggling Aliens - Update

Our investigation identified a Dominican female as a regular alien smuggler who was to arrive on a specific date, via a specific flight, with a group of illegal aliens. The smuggler allegedly circumvented U.S. immigration entrance requirements by using a complicit CBP officer at the airport. A joint surveillance with ICE was initiated of the arriving passengers from the identified flight and a female was observed leaving the incoming passenger line and speaking to a CBP officer. The arriving female returned to the line and escorted two males to the station of the CBP officer to whom she had spoken. The CBP officer was observed as the U.S. customs declaration forms of the two men were stamped with a "U.S. Immigration Admitted" stamp by the officer; however, the officer failed to scan the passports into the Advanced Passenger Information System database. The female and two males were arrested as they departed the area. Exculpatory statements by the two males confirmed the observations made by the surveillance and the complicity of the CBP officer. The CBP officer was found guilty at a jury trial for violation of 18 USC §371 (*Conspiracy*) and sentenced to 24 months in custody, 35 months of supervised probation, and fined \$5,000. (*The original arrest in this case was reported in the SAR for the period April 1, 2004, - August September 30, 2004*)

Civilian Pleads Guilty to Attempted Possession/Distribution of Marijuana; Unnamed Border Patrol Agent Cleared of Having Any Involvement

On March 9, 2006, a civilian marijuana trafficker pleaded guilty to one count of 21 USC §841 (*Unlawful Manufacture, Distribution or Possession of a Controlled Substance*). We arrested the individual on November 1, 2005, as a result of an investigation into allegations that a border patrol agent was involved in assisting alien and narcotics loads to be smuggled undetected through an immigration control checkpoint. During the course of the investigation, the civilian met with our undercover special agent on several occasions, subsequently assisting the undercover agent in smuggling two supposed narcotics loads through the border patrol checkpoint. The civilian maintained throughout that his brother, an agent assigned to the checkpoint, was assisting him in the endeavor. Mounting evidence suggested, however, that the civilian was being untruthful about having a Border Patrol association. Following the civilian's arrest, he confirmed being

part of an alien and drug smuggling organization. He also admitted having lied about having a brother, or other associate, employed with the border patrol. The trafficking organization used these fictitious claims of falsely ensuring safe passage through the checkpoint as a means to solicit higher smuggling fees. Sentencing in United States District Court is set for May 30, 2006.

Border Patrol Agents involved in Alien Smuggling

We conducted an investigation after receiving information from a narcotics task force that one or possibly two border patrol agents were involved with a drug smuggling organization. Our investigation disclosed that one of the drug smuggling organization's members was in contact with an agent. We identified two agents who were involved in smuggling illegal aliens into the United States and both agents were indicted and arrested. One of the agents admitted that they were charging the aliens up to \$2,000 per alien for guaranteed entry into the U.S. On several occasions, border patrol agents' service vehicles were used in smuggling the aliens. Our investigation also revealed that one of the agents is an illegal alien who used false documents to enter the U.S. Navy and the U.S. Border Patrol. Both agents have pleaded guilty to one count of 8 USC §1324 (*Conspiracy to Smuggle Aliens*). One of the agents is scheduled for sentencing in June 2006. The other agent is scheduled for sentencing on May 12, 2006.

Port Director Accepted Bribes for Release of Law Enforcement Information and Failed to Report Subordinate involved in Smuggling Activity

We conducted an investigation after receiving information from a former Immigration and Naturalization Service (INS) inspector that an airport area port director had accepted bribes in return for sensitive law enforcement information. The former INS inspector was indicted and arrested for accepting bribes from a smuggling organization to facilitate the smuggling of illegal aliens and narcotics. During several interviews, the inspector admitted that the area port director informed him of the investigation into his smuggling activities. In return, the port director received several thousand dollars, an outdoor spa and prepaid auto repairs from the inspector. When the investigation was closing in on the inspector, the port director informed him of the investigation's progress, prompting him to resign and move from his residence. The port director was arrested and removed from her position. The port director pleaded guilty to one count of 18 USC §1001 (*False Statement*) and signed an agreement to never seek federal employment. She was sentenced on January 13, 2006, to three years probation and ordered to pay a \$3,000 fine.

Bribery and Alien & Narcotics Smuggling

We conducted an investigation after receiving information that a former INS inspector was accepting bribes from a smuggling organization. Between 1999 and 2002, he was given over \$500,000 by the smuggling organization. In return, he allowed numerous

Department of Homeland Security

vehicles laden with illegal aliens and narcotics into the U.S. through the port of entry. He resigned during 2002, after being warned of this investigation by a former assistant area port director. He and eight members of the smuggling organization were indicted and arrested. Between May and August 2005, three members of the smuggling organization pleaded guilty to several counts of 8 USC §1324 (*Conspiracy to Smuggle Aliens*) and 21 USC §841 (*Unlawful Manufacture, Distribution, Possession of a Controlled Substance*). The inspector was sentenced on November 23, 2005, to 46 months confinement; 60 months probation and ordered to pay a fine of \$10,200.

Supervisory Border Patrol Agent Arrested for Bribery and Alien Smuggling

We conducted an investigation in May 2005 after receiving information that a Mexican national working for an alien smuggling organization was arrested for illegal entry into the U.S. The Mexican national's cellular telephone contained a number belonging to a supervisory border patrol agent. Subsequent investigation indicated that two supervisory agents have been working with the alien smuggling organization since 2003. The agents have facilitated the entry of illegal aliens into the U.S., released illegal aliens and drivers of the alien smuggling organization from immigration custody and facilitated the travel of illegal aliens further into the U.S. The investigation revealed that the agents, in exchange for cash, advised alien smuggling organization members that there were active law enforcement investigations of them. It is estimated that the agents earned \$900,000. On March 9, 2006, the supervisory agents were arrested and charged with: 8 USC §1324 (*Bringing in and Harboring Certain Aliens*); 18 USC §371 (*Conspiracy*); 18 USC §201 (*Bribery of Public Officials and Witnesses*); 18 USC §1001 (*False Statement*); 18 USC §2 (*Aiding and Abetting*), and 26 USC §2206 (*Filing a False Tax Return*).

Former Supervisory Border Patrol Agent Canine Handler and Brother Sentenced for Bribery and Conspiracy to Possess With Intent to Distribute Marijuana and Cocaine

A joint investigation with the Drug Enforcement Agency and the FBI led to the arrest, guilty plea, and sentencing of a former supervisory border patrol agent canine handler and his brother, who sought, received and accepted approximately \$1.5 million in bribe money from members of a drug trafficking organization for guaranteeing the safe passage of more than 30,000 kilograms of marijuana through a checkpoint. On February 27, 2006, a United States District Judge sentenced the former border patrol agent canine handler to 240 months in federal prison, without parole, for USC §201 (*Bribery of Public Officials and Witnesses*) and 21 USC §841 (*Unlawful Manufacture, Distribution, or Possession of a Controlled Substance*), and 180 months for the bribery conviction. The brother, who acted as intermediary between his brother and members of the drug organizations, was sentenced to 210 months in federal prison, without parole, for the drug trafficking conviction and 180 months imprisonment for the bribery conviction. The sentences are to be served concurrently. In addition, to their prison sentences, the court ordered both men

to be supervised for a period of five years following their release from prison. The former border patrol agent canine handler was assessed a fine of \$7,500 and the brother was assessed a fine of \$3,500. In addition to the prison terms and fines, both men have been ordered to forfeit the proceeds of their illegal activity, \$1.5 million in cash and personal property, to the United States.

Border Patrol Agents Sentenced As Part of an Alien and Narcotic Smuggling Operation

A joint investigation with the FBI resulted in the identification of four border patrol agents as part of a drug/alien smuggling organization. We also identified numerous civilians that were part of the criminal organization, which included the drivers and drug smugglers for the organization. Two of the agents were convicted pursuant to 21 USC §841 (*Unlawful Manufacture, Distribution, or Possession of a Controlled Substance*) and 8 USC §1324 (*Bringing in and Harboring Certain Aliens*). One received a sentence of 127 months confinement and 60 months probation, and the other received a sentence of 96 months confinement, three years supervised release and a \$1,000 fine. The third agent was only convicted pursuant to 8 USC §1324 (*Bringing in and Harboring Certain Aliens*) and received a sentence of 12 months and one day confinement. The fourth agent was convicted pursuant to 21 USC §841 (*Unlawful Manufacture, Distribution, or Possession of a Controlled Substance*), and was sentenced to 24 months of confinement. All four agents resigned their positions in lieu of termination.

Former Prison Captain Guilty Of Civil Rights Violation and Witness Tampering

A former prison captain was convicted in federal court on February 8, 2006 for civil rights violations and three counts of tampering with witnesses--one count of 18 USC §242 (*Deprivation of Rights Under Color of Law*) and three counts of 18 USC §1512 (*Witness Tampering*). The captain was indicted in April 2004 for beating an immigration detainee. The indictment resulted from a joint investigation by the DOJ Civil Rights Division, the DHS OIG, the FBI and the U. S. Attorney's Office regarding the subject's use of excessive force on the detainee.

FEDERAL EMERGENCY MANAGEMENT AGENCY

We issued three grant audit reports, including the results of two audits of disaster sub-grants valued at about \$17.6 million. We questioned costs totaling \$3,101,312, of which \$183,263 was unsupported. The third report, based on a contract audit, is entitled, *Grant Management: Connecticut's Compliance with Disaster Assistance Program's Requirements*.

Department of Homeland Security

An itemized list of the audit reports including questioned or unsupported costs is provided in Appendix 4.

Western Farmers Electric Cooperative, Anadarko, Oklahoma

We audited public assistance funds awarded to Western Farmers Electric Cooperative (WFEC), Anadarko, Oklahoma to determine whether WFEC expended and accounted for FEMA funds according to federal regulations and FEMA guidelines. WFEC received the \$11.1 million grant from the Oklahoma Department of Emergency Management, a FEMA grantee, for damages resulting from a severe ice storm beginning on January 30, 2002, and ending July 25, 2003. The award provided 75 percent of FEMA funding for four large projects. We examined all projects under the award. The audit covered the period January 30, 2002, to July 25, 2003, during which WFEC claimed \$11.1 million and Oklahoma Emergency Management Department disbursed \$8.3 million in direct program costs.

WFEC did not expend and account for all FEMA funds according to federal regulations and FEMA guidelines. WFEC did not comply with federal procurement standards or FEMA guidelines in awarding \$7,947,354 of contracted utility and debris removal work. As a result, fair and open competition did not occur and FEMA has no assurance that the contract work was reasonable. Further, we identified questioned costs totaling \$4,112,646 (\$3,084,485 FEMA Share). The questioned costs included improper contracting (\$3,232,188), ineligible damages to private property (\$549,686), unsupported costs (\$234,210), overstated fringe benefits (\$37,725), duplicate administrative costs (\$36,080), unallowable markup (\$20,387), and work not related to the disaster (\$2,370). We recommended that DHS recover disallowed and unsupported costs. (DD-06-06, January 2006, OA)

Grant Management: Connecticut's Compliance With Disaster Assistance Program's Requirements

KPMG, LLP (KPMG), an independent accounting firm under contract with the OIG, reviewed the State of Connecticut's administration and management of FEMA disaster assistance grant programs. The auditors sought to assess Connecticut's systems and processes for ensuring that grant funds were managed, controlled, and expended in accordance with the Stafford Act and the requirements set forth in Title 44 of the Code of Federal Regulations. Although the scope of the audit included a review of costs claimed, a financial audit of those costs was not performed. The audit included two major disasters and one emergency declared by the President of the United States between October 1, 2001, and September 30, 2002.

The auditors concluded that the State of Connecticut needed to improve financial reporting and monitoring of grant monies. However, delivery of program services to entities and individuals appeared to be adequate. The report includes recommendations to improve the State of Connecticut's administration of specific FEMA disaster-assistance grant programs. (DD-07-06, March 2006, OA)

Kieger Enterprises, Inc (KEI), and Employees Sentenced on RICO Act and Other Charges

As a result of a joint investigation with the Internal Revenue Service, Criminal Investigative Division, and the Postal Inspection Service, a former disaster recovery and clean-up company and three of its former officers were charged and received sentences in federal court for engaging in a fraudulent scheme to enrich themselves by taking advantage of funds available for disaster relief efforts, including those for the clean-up efforts related to the June 2000 flooding in Eagan, Minnesota, the June 2001 tornado in Siren, Wisconsin, and the September 11, 2001, attack on the World Trade Center. The former owner of KEI was sentenced to 42 months confinement and 36 months supervised release and ordered to pay \$1,299,955.41 in restitution on charges of *Racketeering Conspiracy and Obstruction of Justice*. The company was sentenced to 12 months probation and ordered to pay \$1,299,955.41 in restitution for *Wire Fraud and Obstruction of Justice*.

The General Manager was sentenced to 108 months confinement and 36 months supervised release and ordered to pay \$1,299,955.41 in restitution for *Racketeering Conspiracy, Mail Fraud, Wire Fraud, and Obstruction*. An employee was sentenced to 6 months confinement, 36 months supervised release, 200 hours community service and ordered to pay \$10,000 in fines for *Racketeering Conspiracy and Obstruction of Justice*. Another employee was sentenced to 12 months confinement and 36 months supervised release, and ordered to pay \$146,980.82 in restitution for *Mail Fraud*. A third employee was sentenced to 60 months probation and ordered to pay \$602,931.81 in restitution for *Aiding and Abetting Wire Fraud*. A former KEI customer was sentenced to 6 months confinement, 24 months probation, and ordered to pay \$10,450 in restitution for *False Statements*. Another former KEI customer was sentenced to 6 months confinement and 36 months probation, and ordered to pay \$31,750.59 in restitution for *False Statements*.

Cerro Grande Fire Claims Act Applicant Cerro Grande Fire Claims Act Santa Fe, New Mexico

On May 4, 2000, the National Park Service initiated a prescribed burn, known as the *Cerro Grande Prescribed Fire*, which exceeded the containment capabilities. A Presidential disaster was declared for the area in and around Los Alamos, New Mexico. Congress enacted the *Cerro Grande Fire Assistance Act* to fully compensate victims whose claims were not covered by the Presidential declared disaster. FEMA was

Department of Homeland Security

designated to administer the *Act*. An applicant submitted a claim for business damages in excess of \$500,000. The claim was denied and in the appeal process the claimant increased the claim amount to over \$750,000. Concurrently, the claimant was under investigation for a \$20,000 fraud in community development grants administered by the Department of Energy. As part of a plea agreement the United States Attorney's Office indicted the claimant on one count of 18 USC §641 (*Theft of Government Property*). The claimant pleaded guilty and sentencing is pending.

IMMIGRATION AND CUSTOMS ENFORCEMENT

Letter Report: Independent Review of The U.S. Immigration and Customs Enforcement Reporting of FY 2005 Drug Control Funds

To comply with 21 U.S.C. 1704(d) and the Office of National Drug Control Policy (ONDCP) Circular *Drug Control Accounting*, dated April 18, 2003, we reviewed ICE's FY 2005 obligations for the National Drug Control Program. Specifically, we reviewed ICE's methodology used to calculate the obligations and their application of the methodology.

We noted several material weaknesses identified during the audit of DHS' FY 2005 year-end balance sheet to which ICE directly contributed. Those material weaknesses were identified in the areas of financial management oversight; financial reporting; undelivered orders, accounts payable, and disbursements; budgetary accounting; fund balance with Treasury; and intra-governmental and intradepartmental balances. We did not review the assertions related to reprogramming or transfers and compliance with fund control notices because of incomplete criteria for multi-mission bureaus such as ICE. We recommended that ICE obtain formal guidance from ONDCP.

Except for the material weaknesses identified, nothing came to our attention that caused us to believe: (1) that the drug methodology used to calculate obligations was not reasonable and accurate, in all material respects, in conformance with criteria specified in the Circular, and (2) that the drug methodology disclosed in the submission was not the actual methodology used to generate the table required by the Circular, in all material respects. We recommended that ICE, in conjunction with DHS, obtain formal guidance from ONDCP and legal counsel, as appropriate, on appropriate and suitable criteria to evaluate reprogrammings, transfers, compliance with fund control notices, and related matters at multi-mission bureaus. (OIG-06-25, March 2006, OA)

October 1, 2005 – March 31, 2006

Audit of Export Controls for Activities Related to China

In response to a congressional mandate in the National Defense Authorization Act for FY 2000, PL 106-65, §1402, October 5, 1999, we conducted the sixth in a series of seven annual interagency audits on transfers of militarily sensitive technology and technical information to countries and entities of concern.

We assessed the effectiveness of the United States government's export control policies and practices with respect to preventing the transfer of sensitive United States technologies and technical information to China. Specifically, we attempted to determine whether in instances where ICE made arrests in connection with violations of export requirements to China, CBP properly screened the commodities prior to release. We also determined whether DHS had taken actions or established documented plans to implement the recommendations from prior audit reports.

The relationship between export related arrests and the export screening process was limited, and did not allow us to draw conclusions about the effectiveness of CBP's screening process. Also, our review of CBP's export control procedures at ports and the ICE arrest cases did not disclose any new conditions that had not been reported in prior audits. Therefore, we did not make any recommendations. Of the seven prior open audit recommendations, DHS bureaus took actions to close two recommendations and established documented plans to implement four more. The remaining prior audit recommendation addressed to ICE remains unresolved and will be elevated to DHS for resolution. (OIG-06-28, March 2006, OA)

ICE Detention and Removal Officer Guilty Of Overtime Fraud

As a result of our review and examination of overtime authorization forms for the period November 2002 through July 2004, in conjunction with ICE, Office of Professional Responsibility, we identified payments of \$17,615.01 in overtime to an ICE, Office of Detention and Removal officer for hours that were not worked. Additional investigation identified fraudulent U.S. Treasury, Internal Revenue Service, documents prepared by the same officer that resulted in his receipt from a commercial company of approximately \$20,500 to which he was not entitled. The officer was charged with violation of 18 USC §641 (*Theft of Government Property*), and 18 USC §91 (*False Personation of an Officer of Employee of the U.S.*), entered a guilty plea to both offenses, and was suspended pending sentencing. Continued investigation regarding the activities of the officer during his period of suspension identified U.S. Postal money orders from his place of employment, which had been fraudulently used by the officer to pay personal utility expenses. Sentencing is scheduled in April 2006.

Department of Homeland Security

ICE Special Agent and Transportation Security Administration (TSA) Screener Arrested for Attempted Child Molestation

An ICE special agent and TSA screener were arrested in January 2006 after they attempted to meet with whom they thought were under-age girls they had been corresponding with over the Internet. In actuality, they were corresponding with an undercover sheriff's department officer in conjunction with Perverted Justice, an organization that works with law enforcement in identifying adults online who are seeking physical sexual encounters with minors. In February 2006, Dateline NBC aired a program entitled "To Catch a Predator III." Both the ICE special agent and the TSA screener were shown on that program. They were charged with *Attempted Child Molestation/Attempted Oral Copulation*, a state charge. Both have pleaded not guilty and are awaiting trial.

ICE Procurement Officer Sentenced

We conducted an investigation to determine whether a former ICE procurement officer negotiated a salary and accepted employment with a private service company, while actively participating in the contract solicitation between ICE and that same company. During our investigation the private service company was removed from the solicitation process, which resulted in a \$1.5 million cost savings to the government. Our investigation confirmed the allegation and established that the subject's actions violated 18 USC §208 (*Acts Affecting a Personal Financial Interest*). The U.S. Attorney's Office accepted the case for criminal prosecution resulting in the subject pleading guilty to a misdemeanor count of 18 USC §208. The former procurement officer was sentenced to 12 months probation and a \$1,000 fine.

MANAGEMENT

Independent Auditors' Report on DHS' FY 2005 Financial Statements

The independent public accounting firm KPMG prepared the independent auditors' report on DHS' financial statements. KPMG concluded that the department made little or no progress in improving its overall financial reporting during FY 2005. KPMG was unable to provide an opinion on the department's balance sheet, and the number of material weaknesses remained at 10. TSA, which received an unqualified opinion in 2004 from its stand-alone audit, was unable to complete its statements by the end of scheduled fieldwork.

Financial management at the department continued to falter during FY 2005, primarily due to problems at ICE and United States Coast Guard (USCG). However, TSA, State

October 1, 2005 – March 31, 2006

and Local Government Coordination and Preparedness (SLGCP), and Emergency Preparedness & Response (EP&R) also experienced difficulties that they could not overcome by the reporting deadline, and they joined ICE and the USCG in contributing to the department's disclaimer of opinion. Those difficulties included: a systems conversion at TSA, problems involving SLGCP's accounting service provider, and Hurricane Katrina, which stretched EP&R's accounting resources late in the fiscal year.

ICE and the USCG faced much deeper problems, and the accounting problems at ICE further affected the bureaus it serviced. The auditors reported that financial management at ICE was ineffective and used unreliable processes and procedures for accounting and financial reporting. The auditors further reported that weaknesses in ICE's controls might have allowed ICE and the components it serviced to violate the *Antideficiency Act*. In particular, ICE had significant problems with respect to the completeness and accuracy of its recorded obligations and their timely recording.

The auditors reported that the USCG did not have an organizational structure that fully supported the development and implementation of effective policies, procedures, and internal controls. Management acknowledged to the auditors that longstanding procedural, control, personnel, and cultural issues existed and had impeded their progress in addressing this structural weakness. The auditors reported that the USCG's personnel rotation policy made it difficult for the USCG's chief financial officer (CFO) to institutionalize internal controls related to financial management and reporting that were outside his direct organization. Within the USCG's CFO organization, the auditors reported that financial reporting processes were complex and labor-intensive.

Although the department inherited many of the reported conditions, the department's CFO is ultimately responsible for ensuring that progress is made in financial management. The auditors reported that the Department's CFO office did not provide effective oversight of bureau corrective action plans to ensure their development, implementation, and successful completion.

The auditors reported the following 10 material weaknesses: financial management and oversight; financial reporting; financial systems security; fund balance with Treasury; property, plant, and equipment; operating materials and supplies; undelivered orders, accounts and grants payable, and disbursements; actuarial liabilities; budgetary accounting; intra-governmental and intradepartmental balances.

The auditors reported two other reportable conditions: environmental liabilities and custodial revenue and drawback.

Instances of non-compliance with the following laws and regulations were also reported: *Federal Managers' Financial Integrity Act of 1982*; *Federal Financial Management Improvement Act of 1996*; *Federal Information Security Management Act*; *Single Audit*

Department of Homeland Security

Act Amendments of 1996, and Laws and Regulations Supporting OMB Circular No. A-50, Audit Follow-up, as revised; Improper Payments Information Act of 2002; DHS Financial Accountability Act of 2004; and Government Performance and Results Act of 1993.

The *Federal Financial Management Improvement Act of 1996* requires that agency Federal financial management systems comply with (1) Federal accounting standards, (2) Federal system requirements, and (3) the U.S. Standard General Ledger at the transaction level. The auditors reported that DHS, CBP, ICE, EP&R, SLGCP, TSA, and USCG did not fully comply with at least one of the requirements of the *Federal Financial Management Improvement Act*. Non-compliance is due to the material weaknesses and reportable conditions cited above, and corrective action plans must be developed to address those weaknesses and conditions. (OIG-06-09, November 2005, OA)

Independent Auditors' Report on CBP's FY 2005 Balance Sheet

CBP received an unqualified opinion on its FY 2005 year-end balance sheet, meaning that the balance sheet was presented fairly, in all material respects. The independent public accounting firm KPMG performed the audit.

The auditor noted the following material weaknesses: drawback of duties, taxes, and fees; information technology; and environmental cleanup costs. The auditor also noted an additional reportable condition with respect to CBP's entry process, specifically, in the areas of (1) compliance measurement program and (2) bonded warehouse and foreign trade zones. Instances of noncompliance with the following laws were also reported: *Federal Managers' Financial Integrity Act, Federal Information Security Management Act, and Federal Financial Management Improvement Act*. (OIG-06-12, December 2005, OA)

FPS Related Funds Transferred from GSA to DHS

In response to a request from two representatives, we reviewed certain funds transferred from the GSA to DHS for the FPS. We attempted to determine whether DHS was in compliance with the *Homeland Security Act of 2002*, which required that any GSA rents and fees transferred to DHS be used solely for the protection of buildings and grounds owned or occupied by the Federal government. We concluded that DHS did not violate the terms of the *Homeland Security Act* in FY 2003 or FY 2005; however, the potential for a violation exists in FY 2004.

We recommended that the DHS CFO, in consultation with the ICE CFO and FPS officials: (1) ascertain the impact of administrative costs on FPS' operating budget and identify a source of funding for FPS' administrative costs, including additional budget

October 1, 2005 – March 31, 2006

authority if necessary, in the annual DHS budget request; (2) obtain a thorough justification of FY 2004 ICE charges to FPS and require ICE to return any overcharge, if identified, to FPS to ensure compliance with the *Homeland Security Act*; and, (3) obtain a legal opinion on the legitimacy of the transactions discussed in this report, i.e., whether the transactions were in compliance with appropriations law, and take appropriate corrective actions, as necessary. (OIG-06-29, March 2006, OA)

Improved Security Required for DHS Networks

We audited DHS' security program and its organizational components to determine the effectiveness of controls implemented on selected wired-based sensitive but unclassified networks. This audit included a review of applicable DHS and component security policies, procedures, and other appropriate documentation. In addition, we performed vulnerability assessments to evaluate the effectiveness of controls implemented on selected organizational components' network devices.

Our objective was to determine whether DHS and its organizational components have implemented adequate controls to protect its networks. The four DHS organizational components reviewed were: CBP, USCG, TSA, and USSS. Our results were summarized in separate audit reports with findings and recommendations issued to each component.

While progress has been made and efforts by the organizational components continue to improve security, specific areas need attention. The DHS Chief Information Officer (CIO) has not developed a department-wide testing program to ensure that the necessary controls over all of its networks are adequate and effective. In addition, the components have not completely implemented DHS policies and procedures or processes that address security testing, monitoring network activities with audit trails, configuration and patch management, and contingency planning.

Security controls must be improved in order for DHS to provide adequate and effective security over its networks. Our vulnerability assessments at the components identified security concerns resulting from inadequate password controls, missing critical patches, vulnerable network devices, and weaknesses in configuration management. These security concerns provide increased potential for unauthorized access to DHS resources and data.

We made a recommendation that would help DHS more effectively secure its networks. Effective network management and security controls are needed in order to protect the confidentiality, integrity, and availability of sensitive information stored and processed on DHS information systems. DHS agreed with our conclusion and has already taken steps to implement the recommendation. (OIG-06-05, November 2005, IT)

Department of Homeland Security

Review of DHS Chief Information Officer Remediation Plan

As directed by U.S. House Committee on Appropriations in H.R. 109-079, *Department of Homeland Security Appropriations Bill, 2006*, we reviewed the thoroughness of the CIO's plan to address the weaknesses in DHS' information security. The House report identified four significant challenges that DHS faces in securing its information systems.

The department completed actions to address one of the challenges identified by the Committee prior to developing its plan. The department had developed a complete and accurate inventory of its sensitive but unclassified and collateral classified systems. However, the CIO has not included the department's intelligence systems in its inventory, since these systems fall under the purview of the DHS Office of Security.

The DHS CIO developed a one-year remediation plan, *Fiscal Year 2006 DHS Information Security Certification and Accreditation Remediation Plan*, to address the three remaining challenges identified in the House report. Based on our review of the plan, we believe that the CIO's remediation plan thoroughly addresses one of the three remaining challenges and partially addresses the two other challenges.

The remediation plan thoroughly addresses the challenge of a poor certification and accreditation process. However, the plan does not completely address two challenges identified by the Committee. The plan will only ensure that by September 30, 2006, all systems that have been accredited have a tested contingency plan as part of its certification and accreditation, and that all contractor-operated systems have been reviewed at least once as part of the certification and accreditation process. In addition, the plan does not address the identified weaknesses of testing contingency plans on a periodic basis, or performing annual reviews of contractor operated systems, as required by the Office of Management and Budget. Further, the plan does not address weaknesses in the information security of the department's intelligence systems including contingency plan testing and certification and accreditation. The chief information security officer believes, however, that the plan specifically addresses all the challenges identified by the Committee, including those that we believe were only partially addressed. We will continue to work with the CIO, and also through our annual evaluation of the department's security programs to address these challenges. (OIG-06-11, November 2005, IT)

Security Weaknesses Increase Risks to Critical DHS Databases

We audited the DHS and its organizational components' security program to evaluate the security and integrity of select sensitive but unclassified mission critical databases. This audit included a review of access controls, continuity of operations, and change management policies and procedures for the EP&R's National Emergency Management

October 1, 2005 – March 31, 2006

Information System; the United States Citizenship and Immigration Services (USCIS) Central Index System; the USCG Marine Information for Safety and Law Enforcement System; and, the USSS web system.

DHS components have implemented security program requirements that have improved DHS' security posture. Specifically, each of the components have certified and accredited the systems we reviewed; determined the system impact level; and, completed National Institute of Standards and Technology Special Publication 800-26 assessments. In addition, three of the four components have documented plans of action and milestones for system weaknesses. Further, DHS has established policies, procedures, and baseline configuration guidelines related to database security, and DHS components have implemented many of the essential security controls for their mission critical database systems.

DHS components have not fully aligned their security programs with *Federal Information Security Management Act of 2002* requirements. Specifically, security controls are not routinely tested or evaluated; contingency plans have not been established and tested; security control costs have not been integrated into the life cycle of the systems; and, system and database administrators have not obtained specialized security training. Although DHS has established secure baseline configuration guidelines for certain software applications, these guidelines are not sufficiently detailed; and, DHS has not established configuration guidelines for other software applications used by the department's database systems. Further, additional work remains for DHS components to implement the user administration, auditing, configuration management, and continuity of operations procedures necessary to protect sensitive data effectively.

DHS concurred with our recommendations and is in the process of implementing corrective measures. In addition, DHS has implemented a review process for verifying that the components are complying with DHS certification and accreditation requirements and implementing such requirements as configuration guidance. (OIG-06-17, December 2005, IT)

Management of the DHS Wide Area Network Needs Improvement

We audited the DHS and its Office of the Chief Information Officer (OCIO) to determine whether the security operations center for the DHS wide area network was performing its network monitoring, risk reduction, and incident reporting activities effectively. Also, in response to a request from the DHS CIO, we evaluated DHS' upgrade to the wide area network to determine if it complied with capital planning and investment control requirements. This audit included a review of applicable DHS and the OCIO's security policies, procedures, and other appropriate documentation. Lastly, we reviewed network security reports to evaluate the effectiveness of network monitoring procedures.

Department of Homeland Security

The OCIO did not use automated network security tools for the DHS wide area network effectively to identify the cause of a growing number of automated security event messages. Our analysis of network security software databases identified several devices within DHS that were generating millions of security event messages each month. However, DHS had not finalized procedures for identifying the source of those messages or for coordinating appropriate actions with other technical and security organizations. DHS systems and data are at increased risk of service disruptions and security-related events if automated network security tools are not utilized effectively.

In addition, the CIO did not follow DHS information technology (IT) capital planning and investment control processes for the selection and control of the DHS wide area network. Specifically, the CIO had implemented and operated the DHS wide area network for two years before issuing an "Interim Authority To Operate." Also, an upgrade to the DHS wide area network was selected and implemented without proper authorization. The DHS wide area network communication system and upgrades may include technical vulnerabilities and may be subject to cost and schedule over-runs when DHS IT capital planning guidelines are not followed. (OIG-06-20, December 2005, IT)

OFFICE OF SECURITY

Evaluation of DHS' Security Program and Practices for Its Intelligence Systems

We conducted an evaluation of DHS' information assurance posture, including its policies and procedures, for the intelligence systems under the department's purview. We performed our work from May through September 2005, at both the program and organizational component levels. Our evaluation focused on DHS' compliance with the *Federal Information Security Management Act of 2002* for its intelligence systems in operation as of May 1, 2005 and containing Top Secret/Sensitive Compartmented Information (TS/SCI).

The overall objective of our evaluation was to identify whether DHS' information security program and practices for its intelligence systems are adequate and effective in protecting TS/SCI information from unauthorized access, use, disclosure, disruption, modification, or destruction. Our assessment included five intelligence community-wide weakness areas that were previously identified by the intelligence community's CIO, and three additional areas that the CIO asked OIGs to assess as part of their FY 2005 review. As part of our evaluation, we also determined whether system security controls were adequate and effective for a sample of eight intelligence systems based upon the requirements in Director of Central Intelligence Directive 6/3, *Protecting Sensitive Compartmented Information Within Information Systems*. Additionally, we conducted system security vulnerability assessments for a subset of six of the eight intelligence

October 1, 2005 – March 31, 2006

systems included in our review. Furthermore, we evaluated DHS' Plan of Action and Milestones process for its intelligence systems and followed up on previous recommendations discussed with DHS.

We recommended that DHS establish a single, comprehensive, and inclusive information security program for its intelligence systems in order to: (1) address the issues identified; (2) provide adequate security for the information and information systems that support intelligence operations and assets; and (3) ensure the confidentiality, integrity, and availability of vital intelligence information. Both DHS' Office of Security and Assistant Secretary for Information Analysis concurred with our recommendation and have begun taking actions to address the issues identified. (OIG-06-13, December 2005, IT)

PREPAREDNESS

The State of Indiana's Management of State Homeland Security Grants Awarded During Fiscal Years 2002 and 2003

Foxx & Company, an independent accounting firm under contract with the OIG, reviewed \$48 million in grants awarded by the Office of Domestic Preparedness to the State of Indiana from the FY 2002 State Domestic Preparedness Program, and from the FY 2003 State Homeland Security Grant Program Parts I and II. The audit assessed the Indiana State Emergency Management Agency's management of these first responder grant programs and included visits to 18 sub-grantees. The state of Indiana's emergency management agency awarded the 18 sub-grantees about \$7.2 million from the FY 2002 and FY 2003 first responder grant programs.

The auditors concluded that while Indiana attempted to conscientiously manage the first responder grant programs, it did not follow its Office of Domestic Preparedness-approved strategic plan. Although the deviations from the plan might have been justifiable by the Indiana State Emergency Management Agency, the state did not document the reasons for the deviations or ask for Office of Domestic Preparedness' approval. Frequent changes in the grantee's management team through April 2005 adversely affected the State's management of the programs, and the magnitude of the grantee's responsibilities was inconsistent with the number of program management staff. Specifically, the State needed more staff to ensure that: (1) sub-grants were awarded timely, (2) sub-grant activities were adequately monitored, (3) progress reports were submitted to Office of Domestic Preparedness and were consistent with Office of Domestic Preparedness' program guidelines, and (4) costs claimed for critical infrastructure protection were adequately supported with documentation proving that the costs were incurred by sub-

Department of Homeland Security

grantees. The audit questioned \$1,236,515 of the costs, of which \$278,857 was unsupported.

The auditors made nine recommendations to strengthen controls over grant spending, improve grants management, and recover unsupported and disallowed costs. (OIG-06-19, December 2005, OA)

Follow Up Review of the Port Security Grant Program

As mandated by the *Homeland Security Appropriations Act of 2006*, we conducted a follow up review of the department's implementation of 12 recommendations contained in our January 2005 report, *Review of the Port Security Grant Program*. In that report, we recommended that DHS address issues involving the program's strategic direction, the evaluation and selection of grant awards, the funding of private sector projects, the status of funds, and the dichotomy between two approaches DHS used to fund projects in the second round. DHS implemented our recommendations in time to improve the fifth round of port security grants, which totaled \$142 million for 132 projects.

DHS did not entirely eliminate the issues we raised in our initial report. The revised selection and evaluation process ranked the projects, but did not include a minimum threshold to differentiate unworthy projects from worthy ones. Twenty projects that reviewers determined did not meet national security priorities were funded. The program also passed over higher ranked projects, which might have been partially funded, to fund lower ranked projects that it could fund fully. Field reviewers' perceptions about projects suggest that they still had widely varying opinions about how well projects were satisfying program criteria. Finally, DHS has not succeeded in defining a policy for funding private sector projects.

We recommended that DHS: (1) establish a minimum score threshold under the new selection and evaluation process that projects must meet, and reallocate funding in the top three tiers relative to this minimum threshold; (2) modify the electronic databases to require National Response Plan members to enter a reason for altering a field review score; (3) seek more consistent scoring by field reviewers; (4) conduct a "pre-audit" of proposed grant award decisions; and, (5) as a grant condition, require private sector applicants to demonstrate how a federal grant would enhance their own security investments. (OIG-06-24, February 2006, ISP)

A Review of Top Officials 3 Exercise

The Top Officials Exercise (TOPOFF) is a congressionally mandated biennial cycle of seminars, planning events, and national exercises designed to strengthen the United States' capacity to prevent, prepare for, respond to, and recover from large scale terrorist

October 1, 2005 – March 31, 2006

attacks. Every two years the cycle culminates in an exercise that simulates a coordinated terrorist attack. The Office of Grants and Training, formerly SLGCP, sponsors the TOPOFF series and manages the design, planning, conduct, and evaluation of the exercises.

The objectives of our review were to determine whether preparation for and conduct of the exercise effectively achieved overarching objectives and whether the scenario and level of participation supported achievement of those objectives. We began almost a year in advance to review efforts to develop, plan, coordinate, and execute the exercise, which was conducted April 4–8, 2005. SLGCP successfully engaged and partnered with 27 federal, 30 state, and 44 local departments and agencies in addition to 156 private sector organizations in a yearlong development and planning process to coordinate and stage the TOPOFF 3 events.

Overall, exercise objectives were addressed and generally met, but the exercise highlighted at all levels of government a fundamental lack of understanding for the principles and protocols set forth in the NRP and NIMS. Further, integration issues relative to the private sector and the Department of Defense require further discussion and analysis. Several issues affect the overall effectiveness of the TOPOFF series. The first concerns the high investment and cost required of participating states and whether or how the federal government should provide funding assistance. The second issue concerns DHS' dependency on contractor expertise and support. Finally, TOPOFF 3 demonstrated unresolved issues from previous exercises that continue to affect and inhibit the ability of organizations at all levels to coordinate effectively an integrated response.

Our report contains 14 recommendations regarding more emphasis on training and exercising the national response plan and the national incident management system; developing standard operating procedures to define roles; clarifying Incident of National Significance designations; developing systems to track and share information more openly and efficiently; improving private sector information sharing and understanding of federal roles in response to various declarations; engaging participants early in exercise development; creating more realistic and plausible scenarios; soliciting federal costs associated with planning and participation; and, developing systematic processes to document issues and create avenues for resolution. DHS is in the process of developing an action plan to address the recommendations. (OIG-06-07, November 2005, ISP)

SCIENCE & TECHNOLOGY

A Review of DHS' Progress in Adopting and Enforcing Equipment Standards for First Responders

The Science & Technology (S&T) directorate is responsible for providing the first responder community with the technological capabilities to effectively respond to terrorist attacks, natural disasters, and other catastrophic events. To accomplish its mission, S&T adopts standards for equipment used by first responders. Adopting centralized, uniform standards for equipment assists first responders in procuring and using equipment that is safe, effective, and compatible. Standardizing communications equipment provides firefighters, police, and other emergency personnel with the ability to communicate better and coordinate their efforts during crisis situations.

Our review examined S&T operations and performance in adopting standards for first responder equipment by assessing (1) its coordination with other DHS components to ensure dissemination and awareness of adopted equipment standards; (2) the number and types of adopted standards related to first responder equipment and communication interoperability; and, (3) the procedures with which DHS ensures first responder compliance with S&T equipment standards. Overall, S&T has made some progress in adopting standards for equipment and communication interoperability, adopting 12 standards and appropriately centralizing the standards adoption process within S&T. However, those standards do not include any relating to interoperability or decontamination, and no new equipment standards have been adopted since February 2004. In addition, S&T standards infrequently apply to equipment items that DHS designates as eligible for purchase by first responders. Therefore, S&T cannot ensure that first responders consistently purchase equipment that complies with its standards.

We identified four issues that affect S&T's ability to adopt and enforce equipment standards: S&T does not accurately track the status of standards being considered for adoption; has inadequate performance measures to establish timelines for completion of its standards adoption process; has no regulatory authority to compel first responders to purchase equipment that conforms to S&T standards; and is not consistently advising Office of Domestic Preparedness, the DHS office that does have such authority, on which categories of equipment conform to its standards.

We made four recommendations that S&T: (1) ensure that the S&T standards database accurately captures all relevant data necessary for tracking the status of standards being considered for adoption; (2) determine methods by which the time required to adopt standards can be accelerated; (3) establish quantifiable performance measures to achieve

more timely adoption of standards; and (4) evaluate the DHS-sponsored equipment listings so that they conform to currently applicable S&T standards. Two recommendations were directed to the Preparedness directorate to (1) reference DHS informational resources for equipment in all grant guidance disseminated to first responder recipients, and (2) mandate that all equipment purchased by first responders, using DHS grant funds, comply with corresponding standards adopted by S&T. (OIG-06-30, March 2006, ISP)

TRANSPORTATION SECURITY ADMINISTRATION

Review of the Transportation Security Administration's Management Controls Over the Screener Recruitment Program

As a result of the September 11, 2001 terrorist attacks, TSA faced a formidable challenge to hire a federalized screener workforce, while concurrently standing up an agency with a one-year Congressional mandate. Although TSA successfully recruited more than 56,000 airport screeners within the mandated period, success came at a high cost. The recruitment contract costs grew more than 600 percent over a 10-month period. In response to Congressional concerns over press reports of perceived wasteful government spending by the TSA's recruitment contractor, NCS Pearson, we audited TSA's management and oversight of the recruitment program.

As a brand new agency, TSA did not have the staff or infrastructure necessary to adequately plan and manage the actions and contracts, such as the NCS Pearson contract. As a result, TSA made critical decisions that greatly increased costs without the benefit of sound acquisition planning or adequate cost control. The establishment of temporary assessment centers, delays and revisions in issuance of the airport federalization schedule and staffing requirements, and higher than expected applicant rejection rates significantly impacted NCS Pearson's costs to establish and operate the assessment centers. By the contract's end, NCS Pearson had assessed more than nine times the number of screeners originally estimated in less than half the time originally allotted. Consequently, the increased candidate volume necessitated larger and more accessible assessment centers. All of these factors contributed to the escalation of contract costs from the original estimate of \$104 million to the settlement amount of \$742 million. In addition, TSA's delay in recording contractual obligations may have put the agency at increased risk for *Antideficiency Act* violations.

TSA has made improvements to its program and contract management since completion of the initial federalization process. We recommended that the agency further improve its acquisition policies and procedures to control contract costs and provide effective project

Department of Homeland Security

management. We also recommended that TSA strengthen and formalize its policies and procedures. (OIG-06-18, December 2006, OA)

Review of Transportation Security Administration's Use of Pat-downs in Screening Procedures

In response to a request by a congressman, we conducted a review of changes the TSA made in September 2004 to strengthen its screening procedures. TSA made the changes as a result of the August 2004 midair explosions of two Russian airliners, believed to have been caused by Chechen women transporting explosive devices concealed under their clothing. The congressman was concerned that the new passenger screening procedures subjected some female air travelers to overly intrusive pat-down inspections.

During the period November 22, 2004 through January 2, 2005, TSA received 79 pat-down complaints per one million passengers selected for pat-downs. In December 2004, TSA modified the September 2004 additional screening procedures to reflect a more targeted, less intrusive pat-down inspection. Following implementation of the modified procedures, TSA received 13 pat-down complaints per one million passengers selected for pat-downs, a significant decline.

To further improve screener pat-down performance, TSA provided additional training to screeners, through briefings, training aids, and its on-line learning center. In February 2005, TSA developed its "Pledge To Travelers" to better inform passengers of their rights and to emphasize its commitment to customer service.

Overall, TSA screeners are applying pat-down procedures properly. Screeners advised passengers of their rights prior to conducting pat-down inspections, explained why the additional screening was necessary, and conducted pat-down inspections according to the training received on the revised additional screening procedures. (OIG-06-10, November 2005, OA)

Transportation Security Administration's Information Technology Managed Services Contract

In response to a request by the Chairman of the Committee on Transportation and Infrastructure, we reviewed TSA's contract with Unisys Corporation for Information Technology Managed Services. In 2002, TSA started the rollout of security operations at airports under congressionally mandated short timeframes with significant budget constraints. To quickly establish an information technology and telecommunication infrastructure needed to support its employees at headquarters and airport locations across the United States, TSA awarded a \$1 billion contract to Unisys, using a broad statement of objectives to describe the requirements. Our report concluded the following:

October 1, 2005 – March 31, 2006

TSA awarded a Statement of Objectives contract to Unisys in August 2002 with a \$1 billion ceiling. TSA has expended 83 percent of the contract ceiling in less than half of the contract period and TSA has not received all essential deliverables. The contract contained 11 objectives, but TSA changed the structure by introducing a service request process to accomplish specific tasks. Unfortunately, the service requests did not always include all of the required contracting elements, such as statements of work with delivery due dates and acceptance criteria. As a result, TSA had no assurance that costs for Unisys deliverables were fair and reasonable; Unisys was sometimes allowed to perform unauthorized contract work; and TSA did not effectively manage its project priorities.

TSA has not fully received all essential planned deliverables that are critical to airport security and communications. One example is high speed operational connectivity. The Unisys contract contained twelve essential deliverables. These essential deliverables were either overdue, had no established due dates, or were only partially delivered.

TSA's Office of Information Technology did not establish or implement adequate performance measures on the Unisys contract. TSA indicated its lack of satisfaction, awarding Unisys only five percent of the available performance award funds. TSA implemented 19 tools to measure, monitor, and track performance on the contract. However, 12 of the 19 tools came into use a year after the contract was in place. Several of the tools were introduced recently or never fully implemented.

TSA has not provided new technology at airports. Many airports were operating with old technology, relying on dial-up internet, and using email connectivity that was slow and ineffective. Telephone systems were also often archaic and land mobile radios did not have enough repeaters to ensure reception throughout airport properties and were not interoperable with other law enforcement agency equipment.

In our draft report, we recommended that TSA terminate the current contract at the end of the base period and re-bid the contract, and implement procedures to ensure that future contracts are procured with proper controls. TSA concurred with the recommendations and has developed a new acquisition strategy for information technology services. TSA awarded a 'bridge' contract to Unisys that allows it to retain equipment leased under the current Information Technology Managed Services contract, and provides for the transition of ongoing projects. We consider the recommendations resolved and closed based on TSA's assurances that these actions are complete. (OIG-06-23, February 2006, OA)

Department of Homeland Security

Review of the Department's Handling of Suspicious Passengers Aboard Northwest Flight 327

We audited the handling of suspicious passengers to: (1) determine the specific circumstances relating to Northwest Airlines Flight 327 from Detroit to Los Angeles on June 29, 2004, including the department's handling of the suspicious airplane passengers before boarding, during flight, and after landing; and (2) identify any lessons learned as a result of the department's handling of the suspicious incident. On this flight, 13 Middle Eastern men behaved in a suspicious manner that aroused the attention and concern of the flight attendants, passengers, air marshals, and pilots.

We concluded that DHS' internal system for communicating and coordinating information on suspicious passengers, activities, and incidents in the gate area and aboard aircraft needs improvement. In addition, both the Federal Air Marshals Service (FAMs) and the FBI have statutory authority to investigate in-flight incidents, thereby causing possible confusion, duplication, and the potential for compromising investigative cases. We recommended that DHS: (1) improve internal communications; (2) clarify each DHS agency's roles and responsibilities and establish guidance for inter- and intra-department coordination and information sharing; and (3) execute a Memorandum of Understanding with the FBI concerning post-flight investigations. (OIG-06-31, March 2006, OA)

Security Screener Sentenced for Sexual Assault on a Child

We conducted an investigation into allegations that a TSA security screener was under investigation for child pornography. The TSA security screener was arrested on April 21, 2004, on state charges of *Sexual Assault on a Child* and *Obscenity*. On November 22, 2005, the TSA security screener was sentenced on a Deferred Judgment to four years probation, a \$2,400 fine, a \$1,000 surcharge, and \$3,722 in restitution, and ordered to register as a sexual offender and have no contact with the victim. The deferred judgment expires on November 22, 2009.

TSA Supervisory Security Screener Sentenced for Distributing Explicit Material to a Minor

We conducted a joint investigation with a state Bureau of Investigations into an allegation that a TSA supervisory security screener was communicating through the internet with an undercover agent whom he believed to be a 13-year-old girl. The undercover agent was a state special agent and communicated with the TSA supervisory security screener from April 17, 2005 to August 29, 2005. On August 31, 2005, the TSA supervisory security screener was arrested and charged with a state penal code violation; *Sending Harmful Matter to Minor* by telephone messages, electronic mail, internet, or commercial online services. On November 10, 2005, the TSA supervisory security

screeener entered into a plea agreement, pleading guilty to violating the state penal code; *Distributing Explicit Material to a Minor*. The TSA supervisory security screener subsequently withdrew his guilty plea and a pre-trial hearing was scheduled for March 2006. The TSA supervisory security screener voluntarily resigned from TSA on January 12, 2006, citing personal reasons.

Three TSA Security Screeners Terminated for Theft

We conducted an investigation into the allegation that three TSA security screeners were stealing TSA-seized prohibited items and subsequently selling the stolen items on eBay. All three TSA security screeners admitted stealing the prohibited seized items. The brother of one of the TSA security screeners sold the prohibited seized items on eBay and collected approximately \$300 a month in sales. We recovered hundreds of stolen items from each TSA security screener's residence. The estimated value of the recovered items was \$13,500. All three TSA security screeners were terminated by TSA and pleaded guilty to 18 USC §641 (*Theft of Government Property*). The three TSA security screeners were sentenced to two years probation, fined \$500, and ordered to perform 40 hours of community service.

TSA Security Screeners Charged with Theft

We conducted an investigation into allegations that four TSA security screeners were targeting Japanese tourists and stealing Japanese Yen from their checked luggage. In March 2005, one of the screeners was caught stealing 196,168 in Japanese Yen (\$1,800 US) from a passenger's checked luggage. A second TSA security screener was implicated and surrendered 123,000 in Japanese Yen (\$1,100 US) that he had stolen from checked luggage. Two additional TSA security screeners have been identified. All four TSA security screeners have been placed on non-paid administrative leave. On March 3, 2006, two of the screeners were charged via an Information for violation of 18 USC §641 (*Theft of Government Property*), 18 USC §659 (*Theft of Carrier Shipments*), 18 USC §371 (*Conspiracy*), and 18 USC §654 (*Employee of the United States Converting Property of Another*). Prosecution of the remaining two TSA security screeners is pending.

Federal Air Marshals (FAMs) Arrested for Distribution of Cocaine

A joint investigation with the FBI determined that two FAMs conspired to transport drugs, proceeds from drugs, and fraudulent identification documents through the aviation transportation system. The FAMs bypassed airport security by entering through the unscreened law enforcement officer entrance. On February 9, 2006, both FAMs were arrested on charges of 18 USC §201 (*Bribery of Public Officials and Witnesses*) and 21 USC §841 (*Unlawful Manufacture, Distribution or Possession of a Controlled Substance*) after a confidential informant delivered 15 kilograms of cocaine to them.

Department of Homeland Security



Cocaine



Marked currency

TSA Screeners Confess to Thefts from Passenger Baggage

We conducted an investigation into thefts occurring at TSA screening checkpoints. Two screeners confessed to stealing thousands of dollars in United States currency, as well as jewelry and other items. The screeners were indicted and subsequently arrested on charges of 18 USC §371 (*Conspiracy*) and 18 USC §641 (*Theft of Government Property*). Both screeners were terminated as a result of this investigation.

UNITED STATES CITIZENSHIP AND IMMIGRATION SERVICE

A Review of U.S. Citizenship and Immigration Services' Alien Security Checks

The USCIS conducts approximately 35 million security checks each year. The checks prevent ineligible applicants from obtaining benefits and help law enforcement agencies identify people who pose risks to national security or public safety. We assessed the scope, proper completion, and efficiency of USCIS' security checks.

USCIS' security checks are overly reliant on the integrity of names and documents that applicants submit. USCIS has not developed a measurable, risk-based plan to define how they will improve the scope of security checks. In addition, our sampling of most benefits showed that management controls are not sufficiently comprehensive to ensure that staff completes checks correctly. Finally, USCIS needs improved automation and staff coordination to eliminate inefficient security check processes.

We made seven recommendations, including that USCIS expand the use of biometric identification techniques and develop a comprehensive plan for the selection and completion of security checks. (OIG-06-06, November 2005, ISP)

Review of Vulnerabilities and Potential Abuses in the L-1 Visa Program

Section 415 of the *Consolidated Appropriations Act of 2005*, PL 108-447, required that we examine the vulnerabilities and potential abuses in the L-1 visa program. The L-1 nonimmigrant visa is one of several temporary worker visa classifications.

We interviewed program managers in Washington, DC, and adjudicators and their supervisors at one of the four service centers that process petitions. With the assistance of the Bureau of Consular Affairs of the Department of State, we surveyed experienced consular professionals at 20 of the largest L-visa issuing posts overseas and visited the Kentucky Consular Center's Fraud Prevention Office.

The L-1 program is vulnerable in several respects. First, the program allows for the transfer of managers and executives, but adjudicators often find it difficult to be confident that a firm truly intends using an imported worker in such a capacity. Second, the program allows for the transfer of workers with "specialized knowledge," but the term is so broadly defined that adjudicators believe they have little choice but to approve almost all petitions. Third, the transfer of L-1 workers requires that the petitioning firm do business abroad, but adjudicators in the United States have little ability to evaluate the substantiality of the foreign operation. Fourth, the program encompasses petitioners who do not yet have, but merely are in the process of establishing, their first U.S. office, and it also permits petitioners to transfer themselves to the United States. These two provisions, separately and in combination, represent "windows of opportunity" for some of the abuse that appears to be occurring.

We made three recommendations to USCIS, but concluded that other vulnerabilities can only be reduced through legislative action to redefine the category. (OIG-06-22, January 2006, ISP)

Former District Adjudications Officer pleaded guilty to Conspiracy to Defraud the United States

We conducted a joint investigation with the DOJ OIG and the FBI into an allegation that a former District Adjudications Officer presently employed as a supervisory CBP officer had accepted bribes in exchange for passing unqualified persons on their citizenship examinations. As a result of our investigation, the CBP officer was charged in a 13-count grand jury indictment with 18 USC §201 (*Bribery of a Public Officials and Witnesses*), 18 USC §371 (*Conspiracy*), and 18 USC §1425, (*Unlawful Procurement of Citizenship*).

Department of Homeland Security

On December 5, 2005, he pleaded guilty to Conspiracy to Defraud the United States and is currently awaiting sentencing.

Private Citizen Sentenced for Identity Theft, Auto Theft, and Receiving and Concealing Stolen property

We conducted an investigation based upon information received from a confidential informant who claimed to be able to obtain a green card from a corrupt ‘Customs’ official. As a result of our investigation, we identified the person purporting to be a corrupt DHS employee. During undercover meetings, the subject agreed to provide genuine immigration documents in exchange for cash. Eventually, the subject provided a counterfeit social security card, and agreed to provide genuine immigration documents, which would allegedly confer the status of “legal permanent resident.” Our investigation confirmed that no DHS employee was involved in this scheme, and on September 23, 2005, we arrested the subject. The subject confessed to the theft of government funds, the transfer of a false identification document, conspiracy to commit immigration fraud, and impersonating a federal immigration officer. We also developed proof that the subject was the center of an elaborate false identify and auto theft scheme being investigated by the state and local auto theft task force. On March 1, 2006, the subject was sentenced to 3 to 20 years for a 7-count indictment charging *Identity Theft, Auto Theft, and Receiving and Concealing Stolen Property*. The subject is also facing a three-count indictment in federal district court for impersonating an officer of the United States.

Private Citizen and Private Attorney Pleaded to Visa Fraud, Impersonation of a Federal Officer and Attempted Improper Entry by Alien

We conducted a joint investigation with DOJ OIG based on information that a private citizen was impersonating a DHS employee as an immigration officer and was fraudulently preparing and submitting petitions to the USCIS for aliens who were not eligible to receive such benefits. We monitored several meetings between the subject and a prospective client, during the course of which the subject represented himself to be an “immigration officer.” In addition, we were able to trace a fraudulent petition, which had been filed by the subject on behalf of the prospective client with the USCIS. In January 2005, together with agents from DOJ OIG and ICE, we executed a search warrant at the subject’s law office which resulted in the seizure of additional evidence related to the filing of false immigration documents. On September 1, 2005, the subject pleaded guilty to a two-count Criminal Information charging him with 18 USC §912 (*False Personation of an Officer or Employee of the U.S.*) and 18 USC §1546 (*Fraud and Misuse of Visas Permits and Other Documents*). On January 10, 2006, the subject was sentenced to two months incarceration and three years probation. Our investigation also identified a private immigration attorney as a co-conspirator. On December 13, 2005, the co-conspirator

October 1, 2005 – March 31, 2006

pleaded guilty to a one-count Criminal Information charging her with 18 USC §2 (*Aiding/Abetting*) and 8 USC §1325 (*Improper Entry by Alien*). The co-conspirator is awaiting sentencing.

USCIS Administrative Assistant Indicted and Arrested for Altering and Falsifying a Visa application

As a result of a joint investigation with the State Department's Diplomatic Security Service, a grand jury indicted a USCIS administrative assistant on one-count of violating 18 USC §159 (*Destruction, Alteration or Falsification of Records in a Federal Investigation*). We arrested the USCIS administrative assistant employee. The charge related to the alteration, and therefore falsification, of an application for visa by a Mexican citizen, who otherwise would not have been lawfully entitled to a United States visa. A trial date is pending.

Civilians Sell Phony Documents to Illegal Aliens Netting More than \$200,000

We conducted an investigation of a USCIS employee who was allegedly involved in providing immigration benefits in return for payment. Our investigation determined that the subject was not a USCIS employee. Another allegation was subsequently received reporting that the subject would tell individuals that her brother worked for USCIS. She would tell clients that she and her brother could assist them in getting their permanent residence for a fee of \$5,000 to \$6,000 each. We subsequently verified that the subject and her brother conspired together in this operation. Through our investigative efforts it was determined that both were involved in defrauding over 100 victims throughout the United States. The victims were seeking immigration benefits. Both were indicted under 18 USC §371 (*Conspiracy*), 18 USC §912 (*False Personation of an Officer or Employee of the U.S.*), 18 USC §1001 (*False Statement*), and 18 USC §1546 (*Fraud and Misuse of Visas, Permits, and other Documents*). The brother pleaded guilty to conspiracy, false statements, and fraud and misuses of entry documents. The brother was sentenced on September 12, 2005, to 27 months of confinement, three years of supervised release and ordered to pay restitution in the amount of \$199,400. The sister fled the country. An arrest warrant remains outstanding for her.

USCIS Supervisor Accused of Harboring Aliens

We investigated allegations that a USCIS supervisor was harboring and transporting an illegal alien with whom he had a personal relationship. Our investigation determined that the supervisor allowed an illegal alien, who had been previously deported from the United States, to live at his personal residence. The supervisor was arrested and charged with violations of 8 USC §1324 (*Bringing In and Harboring Certain Aliens*) and the alien was arrested and charged with 8 USC §1325 (*Improper Entry by Alien*). A search of the supervisor's residence resulted in the seizure of additional evidence substantiating that

Department of Homeland Security

the supervisor knew the alien was in the U.S. illegally. The supervisor subsequently resigned from his position with USCIS. On September 2, 2005, the alien was sentenced to four months confinement and placed into deportation proceedings. On January 23, 2006, the supervisor was sentenced to four months home confinement, one year supervised probation, and ordered to pay a fine in the amount of \$1,000.

UNITED STATES COAST GUARD

Letter Report: Independent Review of The U.S. Coast Guard's Reporting of FY 2005 Drug Control Funds

To comply with 21 U.S.C. 1704(d) and the ONDCP Circular *Drug Control Accounting*, dated April 18, 2003, we reviewed the USCG's FY 2005 obligations for the National Drug Control Program. Specifically, we reviewed USCG's methodology for calculating the obligations and its application of the methodology.

We noted several material weaknesses identified during the audit of DHS' FY 2005 year-end balance sheet to which USCG directly contributed. Those material weaknesses were identified in the areas of financial management oversight; financial reporting; financial systems security; undelivered orders, accounts payable, and disbursements; budgetary accounting; actuarial liabilities; fund balance with Treasury; intra-governmental and intradepartmental balances; property, plant, and equipment; and operating materials and supplies. We did not review the assertions related to reprogramming or transfers and compliance with fund control notices because of incomplete criteria for multi-mission bureaus such as USCG. We recommended that USCG obtain formal guidance from ONDCP.

Except for the material weaknesses identified, nothing came to our attention that caused us to believe (1) that the drug methodology used to calculate obligations was not reasonable and accurate, in all material respects, in conformance with criteria specified in the Circular, and (2) that the drug methodology disclosed in the submission was not the actual methodology used to generate the table required by the Circular, in all material respects. We recommended that USCG, in conjunction with DHS, obtain formal guidance from ONDCP and legal counsel, as appropriate, on appropriate and suitable criteria to evaluate these matters for multi-mission bureaus. (OIG-06-27, March 2006, OA)

US-VISIT

US-VISIT System Security Management Needs Strengthening

We audited the information security controls of the three major systems that comprise the “backbone” and current framework of the US-VISIT Program: Arrival and Departure Information System, Automated Biometric Identification System, and Treasury Enforcement Communication System. Our audit included an assessment of the adequacy of information security controls on US-VISIT systems based on direct observations, vulnerability and wireless system security scans; an analysis of applicable security documents; and, a review of physical security controls.

Overall, information security controls, including physical access controls, have been implemented and provide an effective level of security on the systems, which comprise the backbone of US-VISIT. However, system security vulnerabilities we identified could compromise the confidentiality, integrity, and availability of sensitive US-VISIT data. Further, the security management of the US-VISIT program needs strengthening. The US-VISIT CIO does not have the necessary authority over DHS component CIOs and program officials to ensure adequate security controls are implemented on the systems that will be integrated for the US-VISIT program, which may hinder or limit the processes and mechanisms needed to effectively protect US-VISIT data. A coordinated effort is needed to achieve the long-term, comprehensive vision of a secure, integrated entry and exit program.

We recommended that the Assistant Secretary for Strategic Planning, Office of Policy, establish a formal structure for the oversight and management of the security for the US-VISIT program. We also recommended that the US-VISIT CIO be provided with the authority to oversee all elements, including system security of the future architecture of the US-VISIT program. DHS management and US-VISIT program office officials generally concurred with our findings and have begun taking actions to address our recommendations. (OIG-06-16, December 2005, IT)

OTHER OIG ACTIVITIES

Since its inception in March 2003, the DHS has worked to accomplish the largest reorganization of the federal government in more than half a century. This task, creating the third largest Cabinet agency with the critical, core mission of protecting the country against another terrorist attack, has presented many challenges to the department's managers and employees. While DHS has made progress, it still has much to do to establish a cohesive, efficient, and effective organization. We identified "major management challenges" facing the department, as discussed below. These challenges influence our priorities for audits, inspections, and evaluations of DHS programs and operations.

Consolidating the department's components in a single, effective, and efficient department remains one of DHS' biggest challenges. DHS has made progress in this area. For example, DHS established an Operational Integration Staff to assist departmental leadership with the integration of certain DHS missions, operational activities, and programs at the headquarters level and throughout the DHS regional structure. Further, in FY 2005, the Secretary initiated an internal top-to-bottom review of the department, referred to as the Second Stage Review. The review resulted in changes to DHS' organization structure. Those changes resulted in a DHS that was re-focused on risk and consequence management and further involved with its partners in other Federal agencies, state and local governments, and private sector organizations. However, significant challenges remain in the following areas. (OIG-06-14, December 2005, OA)

- Disaster Response and Recovery
- Consolidation of Department Components
- Infrastructure and Threat Assessment
- Integration of Information Systems
- Security of Information Technology Infrastructure
- Human Capital Management
- Financial Management
- Contract Management
- Grants Management
- Border Security
- Transportation Security
- Trade Operations and Security

Oversight of Non-DHS OIG Audits

We processed 68 contract audits conducted by DCAA during the current reporting period. The DCAA reports contained \$2,033,482 in questioned costs, none of which was unsupported. In addition, four DCAA audit reports of contractor proposals included \$70,359,507 that was questioned, which we classified as “funds put to better use.” We continue to monitor the actions taken to implement the recommendations in the reports.

We also processed 59 single audit reports issued by other independent public accountant organizations. The single audit reports questioned \$463,937, all of which 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 the reports.

Significant Reports Unresolved Over Six 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 202 reports that contain recommendations that have been unresolved for more than six months. Management decisions have not been made for significant reports, as follows:

- Thirteen program management audit reports that we issued.

The Department is currently reviewing the reports and advises that it anticipates resolving the recommendations by September 30, 2006.

- Fifty grant compliance audit reports that we issued.

The Department is currently reviewing the reports and advises that it anticipates resolving the recommendations by September 30, 2006.

- Eleven state disaster management contract audit reports that we issued.

The Department is currently reviewing the reports and advises that it anticipates resolving the recommendations by September 30, 2006.

- Seventy-two Single Audit Act reports that we processed.

The Department is currently reviewing the reports and advises that it anticipates resolving the recommendations by September 30, 2006.

Department of Homeland Security

- Thirteen DCAA contract audit reports that we processed.

The Department is currently reviewing the reports and advises that it anticipates resolving the recommendations by September 30, 2006.

- Ten audit reports issued by legacy agencies other than FEMA.

The Department is currently reviewing the reports and advises that it anticipates resolving the recommendations by September 30, 2006.

LEGISLATIVE AND REGULATORY REVIEW

Section 4 (a) of the *IG Act* requires the IG to review existing and proposed legislation and regulations related 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 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 a government-wide impact.

During this reporting period, we reviewed 44 legislative items, proposed regulations, and draft DHS policy directives. The topics concerned diverse matters such as information security, intelligence activities, infrastructure protection, law enforcement activities, and oversight of major DHS investments.

CONGRESSIONAL BRIEFINGS AND TESTIMONY

We maintain excellent working relationships with members and staff of Congressional authorizing and appropriations committees through daily contact with our congressional relations staff and regular briefings and meetings with senior managers. Members and staff were briefed on a host of issues, including the department's response to the hurricanes in the Gulf Coast region; remote border surveillance technology; the Secure Border Initiative; a proposal to merge ICE and CBP; contracting and procurement issues; L-1 and H1-B visas; FEMA's response to the September 11, 2001 World Trade Center disaster; TSA airport passenger and baggage screeners; screening waste shipments from

October 1, 2005 – March 31, 2006

Canada; the port security grant program; leaks of classified information; container security initiative; and the treatment of aliens held in DHS detention facilities.

With the introduction of a new Congressional Liaison, brought on board in mid-January to work exclusively on Gulf Coast Hurricane Recovery issues, our office is positioned to meet the increased workload in this area and continue its excellent working relationships with members and staff of Congressional authorizing and appropriations committees. Gulf Coast Hurricane Recovery staff is in daily contact with, and regularly briefs, congressional members and staff. Members and staff were briefed on a number of Gulf Coast response and recovery issues, including waste, fraud and abuse; supplemental budget and allocation; and contract oversight and monitoring.

The IG and senior managers testified eight times before the following congressional committees during the reporting period. Testimony prepared for these hearings may be accessed through our website at: www.dhs.gov/oig.

- October 6, 2005 – House Transportation and Infrastructure Subcommittee on Economic Development, Public Buildings and Emergency Management on FEMA after Katrina;
- October 6, 2005 - House Appropriations Subcommittee on Homeland Security on funding requirements for Hurricanes Katrina and Rita;
- November 2, 2005 - House Select Bipartisan Committee to Investigate the Preparation and Response to Hurricane Katrina: the federal government's use of contractors to prepare and respond;
- November 15, 2005 - House Homeland Security Subcommittee on Management, Integration, and Oversight on organizational structure of homeland security agencies;
- December 16, 2005 - House Homeland Security Subcommittee on Management, Integration, and Oversight on mismanagement of the border surveillance system and lessons for the new Secure Border Initiative;
- February 13, 2006 – Senate Homeland Security and Governmental Affairs Committee, “Hurricane Katrina: Waste Fraud, and Abuse Worsen the Disaster;”
- March 8, 2006 – Senate Homeland Security and Governmental Affairs Committee, “Hurricane Katrina: Recommendations for Reform;”

Department of Homeland Security

- March 28, 2006 – House Government Reform Subcommittee on National Security, Emerging Threats, and International Relations on how ICE sets investigative priorities.

October 1, 2005 – March 31, 2006

APPENDICES

Appendix 1	Audit Reports with Questioned Costs
Appendix 1b	Audit Reports with Funds Put to Better Use
Appendix 2	Compliance – Resolution of Reports and Recommendations
Appendix 3	Management Reports Issued
Appendix 4	Financial Assistance Audit Reports Issued
Appendix 5	Schedule of Amounts Due and Recovered
Appendix 6	Acronyms
Appendix 7	OIG Headquarters/Field Office Contacts and Locations
Appendix 8	Index to Reporting Requirements

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 ¹	115	\$169,704,035	\$68,254,636
B. Reports issued/processed during the reporting period with questioned costs ¹	15	\$18,988,196	\$ 926,057
Total Reports (A+B)	130	\$188,692,231	\$69,180,693
C. Reports for which a management decision was made during the reporting period	13	\$20,347,498	\$ 5,601,181
(1) Disallowed costs	5	\$ 5,505,669	\$1,920,210
(2) Accepted costs ²	8	\$14,841,829	\$3,680,971
D. Reports put into appeal status during period	0	\$0	\$0
E. Reports pending a management decision at the end of the reporting period	117	\$168,344,733	\$63,579,512
F. Reports for which no management decision was made within six months of issuance	96	\$130,606,249	\$63,780,991

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 - are 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.

¹ The questioned costs represent those costs reported by our office and non-federal auditors (i.e., DCAA and independent accounting firms for single grant audits).

² Single audit report #OIG-S-20-04 was processed in February 2004, reporting \$46,916 in questioned, ineligible costs in error. The adjustment was included in Section C (2) above.

October 1, 2005 – March 31, 2006

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

In Category C, six (6) audit reports contained both allowed and disallowed costs.

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, 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 - are costs that are not supported by adequate documentation.

Department of Homeland Security

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	8	\$52,319,451
B. Reports issued during this reporting period	7	\$74,029,369
Total Reports (A + B)	15	\$126,348,820
C. Reports for which a management decision was made during the reporting period	3	\$3,669,862
(1) Value of recommendations agreed to by management	3	\$3,669,862
(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	12	\$122,678,958
F. Reports for which no management decision was made within six months of issuance	8	\$52,319,451

Notes and Explanations:

In category C, lines (1) and (2) do not always equal the total on line C since 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, de-obligating funds, or avoiding unnecessary expenditures.

October 1, 2005 – March 31, 2006

Appendix 2

Compliance – Resolution of Reports and Recommendations

MANAGEMENT DECISION IS PENDING

	9/30/05	
Reports open over six months		201
Recommendations open over six months		883
	3/31/2006	
Reports open over six months		202
Recommendations open over six months		735

CURRENT INVENTORY

Open reports at the beginning of the period	306
Reports issued this period ¹	188
Reports closed this period	50
Open reports at the end of the period	444

ACTIVE RECOMMENDATIONS

Open recommendations at the beginning of the period	1,186
Recommendations issued this period	366
Recommendations closed this period	103
Open recommendations at the end of the period	1,449

Notes and Explanations:

¹Includes 14 management audit reports issued, 6 IT audit reports issued, 9 inspection reports issued, 29 management advisory reports, 3 disaster grant audit reports issued, 68 contract grant audit reports processed, and 59 single audit reports processed.

Appendix 3 Management Reports Issued

Program Office/Report Subject	Report Number	Date Issued
1. An Assessment of the Proposal to Merge Customs and Border Protection with Immigration and Customs Enforcement	OIG-06-04	11/05
2. Improved Security Required for DHS Networks	OIG-06-05	11/05
3. A Review of U.S. Citizenship and Immigration Services' Alien Security Checks	OIG-06-06	11/05
4. A Review of the Top Officials 3 Exercise	OIG-06-07	11/05
5. A Review of Border Patrol's Compliance with Public Law 108-334 and the Use of Checkpoints within the Tucson Sector	OIG-06-08	11/05
6. Independent Auditors' Report on DHS' FY 2005 Financial Statements	OIG-06-09	11/05
7. Review of the Transportation Security Administration's Use of Pat-downs in Screening Procedures	OIG-06-10	11/05
8. Letter Report: Review of DHS Chief Information Officer Remediation Plan	OIG-06-11	11/05
9. Independent Auditors' Report on CBP's FY 2005 Balance Sheet	OIG-06-12	12/05

October 1, 2005 – March 31, 2006

Appendix 3 Management Reports Issued

Program Office/Report Subject	Report Number	Date Issued
10. Summary of Evaluation of DHS' Security Program for Its Intelligence Systems	OIG-06-13	12/05
11. Major Management Challenges Facing the Department of Homeland Security	OIG-06-14	12/05
12. A Review of Remote Surveillance Technology Along U.S. Land Borders	OIG-06-15	12/05
13. US-VISIT System Security Management Needs Strengthening	OIG-06-16	12/05
14. Security Weaknesses Increase Risks to Critical DHS Databases	OIG-06-17	12/05
15. Review of the Transportation Security Administration's Management Controls Over the Screener Recruitment Program	OIG-06-18	12/05
16. The State of Indiana's Management of State Homeland Security Grants Awarded During Fiscal Years 2002 and 2003 ⁴	OIG-06-19	12/05
17. Management of the DHS Wide Area Network Needs Improvement	OIG-06-20	12/05

⁴ Management audit report OIG-06-19 disclosed \$1,236,515 in questioned costs, of which \$278,857 was unsupported. These costs are included in the grand total of questioned costs and unsupported costs in Appendix 4.

Department of Homeland Security

Appendix 3 Management Reports Issued

Program Office/Report Subject	Report Number	Date Issued
18. Audit of Screening of Trucks Carrying Canadian Municipal Solid Waste	OIG-06-21	1/06
19. Review of Vulnerabilities and Potential Abuses in the L-1 Visa Program	OIG-06-22	1/06
20. Transportation Security Administration's Information Technology Managed Services Contract	OIG-06-23	2/06
21. Follow Up Review of the Port Security Grant Program	OIG-06-24	2/06
22. Letter Report: Independent Review of The U.S. Immigration and Customs Enforcement Reporting of FY 2005 Drug Control Funds	OIG-06-25	3/06
23. Letter Report: Independent Review of The U.S. Customs and Border Protection Reporting of FY 2005 Drug Control Funds	OIG-06-26	3/06
24. Letter Report: Independent Review of The U.S. Coast Guard's Reporting of FY 2005 Drug Control Funds	OIG-06-27	3/06
25. Audit of Export Controls for Activities Related to China	OIG-06-28	3/06
26. FPS Related Funds Transferred from GSA to DHS	OIG-06-29	3/06
27. Review of DHS' Progress in Adopting and Enforcing Equipment Standards for First Responders	OIG-06-30	3/06

Appendix 3 Management Reports Issued

	Program Office/Report Subject	Report Number	Date Issued
28.	Review of Department's Handling of Suspicious Passengers Aboard Northwest Flight 327	OIG-06-31	3/06
29.	A Performance Review of FEMA's Disaster Management Activities in Response to Hurricane Katrina	OIG-06-32	3/06

Department of Homeland Security

Appendix 4 Financial Assistance Audit Reports Issued

Report Number	Date Issued	Auditee	Questioned Costs	Unsupported Costs	Funds Put to Better Use
1. GC-HQ-06-01 rvs'd (OIG-06-01)	10/05	Process for Preparing Project Worksheets	\$0	\$0	\$0
2. GC-LA-06-02 rvs'd GC-DD-06-02; DD-01-06)	10/05	Review of the Proposed Interagency Housing Agreement with the Department of Veterans Affairs	\$0	\$0	\$0
3. GC-LA-06-03 rvs'd (GC-DD-06-03; DD-02-06)	10/05	Placement of FEMA Trailers in St. Bernard Parish	\$0	\$0	\$0
4. GC-LA-06-04 rvs'd (GC-DD-06-04; DD-03-06)	10/05	Changes in State of Louisiana Compensation Policies	\$0	\$0	\$0
5. GC-HQ-06-05 rvs'd (OIG-06-02)	11/05	Management Advisory Report on the Major Technical Assistance Contracts	\$0	\$0	\$0
6. GC-HQ-06-06 rvs'd (OIG-06-03)	11/05	Expedited Assistance Overpayment	\$4,521,950	\$0	\$0
7. (GC-DD-06-07; DD-04-06)	11/05	Clearbrook, LLC Billing Errors Under Contract Number HSFE-06-05-F-6232	\$4,900,000	\$0	\$0
8. GC-LA-06-08 rvs'd (GC-DD-06-08; DD-05-06)	11/05	Washington Parish Contracting Problems	\$0	\$0	\$0

October 1, 2005 – March 31, 2006

Appendix 4 Financial Assistance Audit Reports Issued

Report Number	Date Issued	Auditee	Questioned Costs	Unsupported Costs	Funds Put to Better Use
9. GC-HQ-06-09	2/06	Management Advisory Report on Invoices submitted under Task Order HSFEHQ-06-F-0047 by Corporate Lodging Consultants, Inc.	\$31,000	\$0	\$0
10. GC-HQ-06-10	2/06	Strengthening Registration Intake Controls	\$65,000	\$0	\$0
11. GC-HQ-06-11	2/06	Management Advisory Report on the Acquisition of Cruise Ships for Hurricane Katrina Evacuees	\$0	\$0	\$0
12. GC-HQ-06-12	2/06	Mobile Homes & Modular Homes at Hope and Red River	\$0	\$0	\$0
13. GC-HQ-06-13	2/06	FEMA Should Invest Funds Associated with Grant EMW-2006-GR-0056	\$0	\$0	\$2,500,00
14. GC-MS-06-14	2/06	Review Hurricane Katrina Activities City of Bay St. Louis, Mississippi, FEMA Disaster No. 1604-DR-MS	\$735,000	\$0	\$0
15. GC-MS-06-15	2/06	Review of FEMA Contracts Awarded by Contracting Officers at the Biloxi, MS Area Field Office	\$0	\$0	\$0
16. GC-AL-06-16	2/06	Review of Hurricane Katrina Contracts Baldwin County, Alabama	\$0	\$0	\$0

Department of Homeland Security

Appendix 4 Financial Assistance Audit Reports Issued

Report Number	Date Issued	Auditee	Questioned Costs	Unsupported Costs	Funds Put to Better Use
17. GC-HQ-06-17	2/06	Management Advisory Report on Armed Guard Services provided by Blackwater Security Consulting, LLC under Contract HSCEFC-05-J-F00002	\$0	\$0	\$0
18. GC-AL-06-18	2/06	City of Gulf Shores, Alabama	\$0	\$0	\$0
19. GC-HQ-06-19	3/06	Indirect Costs under Grant Agreement Number EMW-2006-GR-0056 with United Methodist Committee on Relief/Emergency Services International	\$0	\$0	\$0
20. GC-AL-06-20	3/06	Review of Hurricane Katrina Contract City of Bayou La Batre, Alabama	\$0	\$0	\$900,000
21. GC-AL-06-21	3/06	Review of Hurricane Katrina Contracts City of Fairhope, Alabama	\$0	\$0	\$0
22. GC-AL-06-22	3/06	Review of Hurricane Katrina Contracts City of Daphne, Alabama	\$0	\$0	0
23. GC-HQ-06-23	3/06	FEMA Trailers at Pontchartrain Guest House	\$0	\$0	\$269,862
24. GC-AL-06-24	3/06	Review of FEMA Contracts Awarded by Contracting Officers Montgomery, Alabama, Joint Field Office	\$0	\$0	\$0
25. GC-MS-HQ-25	3/06	Review Hurricane Katrina Activities City of Biloxi, Mississippi FEMA Disaster No 1604-DR-MS	\$1,900,000	\$0	\$0

October 1, 2005 – March 31, 2006

Appendix 4 Financial Assistance Audit Reports Issued						
Report Number	Date Issued	Auditee	Questioned Costs	Unsupported Costs	Funds Put to Better Use	
26.	GC-TX-06-26	3/06	Review of Hurricane Katrina Activities City of San Antonio, Texas FEMA Disaster No. EM-3216-TX	\$0	\$0	\$0
27.	GC-AL-06-27	3/06	Review of Hurricane Katrina Contracts City of Orange Beach, Alabama	\$0	\$0	\$0
28.	GC-MS-06-28	3/06	Review of Hurricane Katrina Activities City of D'Iberville, Mississippi FEMA Disaster No. 1604-DR-MS	\$0	\$0	\$0
29.	GC-MS-06-29	3/06	Review of FEMA Contracts Awarded by Contracting Officers at the Jackson, MS Joint Field Office	\$0	\$0	\$0
Subtotal: Gulf Coast Hurricane Recovery Related Reports			<u>\$12,152,950</u>	<u>\$0</u>	<u>3,669,862</u>	
30.	DD-06-06	1/06	Western Farmers Electric Cooperative, Anadarko, Oklahoma	\$3,084,485	\$175,658	\$0
31.	DD-07-06	3/06	Grant Management: Connecticut's Compliance With Disaster Assistance Program's Requirements	\$0	\$0	\$0
32.	DS-01-06	11/05	Audit of Yakima County, Yakima, Washington	\$16,827	\$7,605	\$0
Subtotal Disaster Grant Audits			<u>\$3,101,312</u>	<u>\$183,263</u>	<u>\$0</u>	

Department of Homeland Security

Appendix 4 Financial Assistance Audit Reports Issued						
	Report Number	Date Issued	Auditee	Questioned Costs	Unsupported Costs	Funds Put to Better Use
33.	OIG-C-27-06	1/06	Audit Report on Siemens Pricing Proposal: Siemens Maintenance Services, LLC ³	\$0	\$0	\$409,513
34.	OIG-C-31-06	1/06	Audit Report on Intermediate Home Office Incurred Costs for Period January 1, 2003 through December 31, 2003: Prime Flight Aviation Services, Inc.	\$110,988	\$0	\$0
35.	OIG-C-42-06	2/06	Audit Report on Jackson Hole Airport Board Baggage Screen Proposal: Jackson Hole Airport Board ³	\$0	\$0	\$681,527
36.	OIG-C-52-06	2/06	Report on Audit of Calendar Year 2002 Incurred Costs for Department AAA: Michael Baker Jr., Inc.	\$8,664	\$0	\$0
37.	OIG-C-53-06	2/06	Report on Audit of Calendar Year 2003 Incurred Costs for Department AAA: Michael Baker Jr., Inc.	\$384,736	\$0	\$0
38.	OIG-C-56-06	2/06	Report on Audit of Integrated Product Team (IPT) for the ITMS Bridge Contract Under RFP No. HSTS04-05-R-CIO: Unisys Corp ³	\$0	\$0	\$58,837,177

October 1, 2005 – March 31, 2006

Appendix 4						
Financial Assistance Audit Reports Issued						
	Report Number	Date Issued	Auditee	Questioned Costs	Unsupported Costs	Funds Put to Better Use
39.	OIG-C-58-06	3/06	Report on Audit of Integrated Product Team (IPT) for the ITMS Bridge Contract Under RFP No. HSTS04-05-R-CIO: Unisys Corp. ³	\$0	\$0	\$10,431,290
40.	OIG-C-68-06	3/06	Audit Report on Application of Agreed-Upon Procedures: D.W. Nicholson Corporation	\$1,529,094	\$0	\$0
			Subtotal DCAA Audits¹	<u>\$2,033,482</u>	<u>\$0</u>	<u>\$70,359,507</u>
41.	OIG-S-41-06	1/06	State of South Carolina	\$447,737	\$447,737	\$0
42.	OIG-S-49-06	2/06	Government of United States Virgin Islands	\$16,200	\$16,200	\$0
			Subtotal Single Audits¹	<u>\$463,937</u>	<u>\$463,937</u>	<u>\$0</u>
	OIG-06-19	12/05	The State of Indiana's Management of State Homeland Security Grants Awarded During Fiscal Years 2002 and 2003 (Redacted) ²	\$1,236,515	\$278,857	\$0
			Subtotal	<u>\$1,236,515</u>	<u>\$278,857</u>	<u>\$0</u>
			TOTAL	<u>\$18,988,196</u>	<u>\$926,057</u>	<u>\$74,029,369</u>

Note: The narrative identifies 100% of the dollar amount we questioned. This appendix reflects the actual breakdown of what the grantee is expected to de-obligate or reimburse – there is a percentage of what they pay vs. what we pay that we have to calculate.

Department of Homeland Security

¹Of the total single audits and DCAA audits processed this period, Appendix 4 only includes those audits that had questioned costs or funds put to better use.

²Management audit report OIG-06-19 disclosed \$1,236,515 in questioned costs, of which \$278,857 was unsupported. This audit report is categorized as a program management audit and is included in Appendix 3.

³Funds put to better use include costs questioned on contractor proposals.

Report Number Acronyms:

DD Disaster, Dallas
DS Disaster, San Francisco
OIG-C DCAA Audits
OIG-S Single Audits

October 1, 2005 – March 31, 2006

Appendix 5					
Schedule of Amounts Due and Recovered					
	Report Number	Date Issued	Auditee	Amount Due	Recovered Costs
1.	DO-21-03	9/03	City of Los Angeles, Department of General Services, Los Angeles, California		\$246,472
2.	DS-16-05	9/05	Audit of the City of Santa Clarita, California		\$15,000
3.	DS-21-04	9/04	Audit of Sutter County, Yuba City, California		\$28,932
			<u>TOTAL</u>	<u>\$0</u>	<u>\$290,404</u>

Report Number Acronyms:

DO Disaster, Denton Office
DS Disaster, San Francisco

Appendix 6 Acronyms

CBP	Customs and Border Protection
CFO	Chief Financial Officer
CIO	Chief Information Officer
CLC	Corporate Lodging Consultants, Inc.
DCAA	Defense Contract Audit Agency
DD	Disaster, Dallas
DHS	Department of Homeland Security
DOJ	Department of Justice
DS	Disaster, San Francisco
EP&R	Emergency Preparedness & Response
FAMs	Federal Air Marshals
FBI	Federal Bureau of Investigations
FEMA	Federal Emergency Management Agency
FPS	Federal Protective Service
FY	Fiscal Year
GC	Gulf Coast Hurricane Recovery Office
GSA	General Services Administration
ICE	Immigration and Customs Enforcement
IG	Inspector General
INS	Immigration and Naturalization Service
ISP	Office of Inspections, Evaluations, and Special Reports
IT	Information Technology
ITMS	Information Technology Managed Services
KEI	Kieger Enterprises
OA	Office of Audits
OCIO	Office of the Chief Information Officer
OI	Office of Investigations
OIG	Office of Inspector General
OIG-C	DCAA Audits
OIG-S	Single Audits
ONDCP	Office of National Drug Control Policy
PL	Public Law
RICO Act	<i>Racketeer Influenced and Corrupt Organizations Act</i>
S&T	Science & Technology
SLGCP	State and Local Government Coordination and Preparedness
TOPOFF	Top Officials Exercise

Appendix 6 Acronyms

TSA	Transportation Security Administration
USC	United States Code
USCG	United States Coast Guard
USCIS	United States Citizenship and Immigration Services
USSS	United States Secret Service
WFEC	Western Farmers Electric Cooperative

Appendix 7 OIG Headquarters/Field Office Contacts and Locations

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

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Fax Number (202) 254-4285
Website Address www.dhs.gov

OIG Headquarters Senior Management Team

Richard L. Skinner	.....	Inspector General
James L. Taylor	.....	Deputy Inspector General
Richard N. Reback	.....	Counsel to the Inspector General
David M. Zavada	.....	Assistant Inspector General/Audits
Elizabeth M. Redman	.....	Assistant Inspector General/Investigations
Robert L. Ashbaugh	.....	Assistant Inspector General/Inspections
Frank Deffer	.....	Assistant Inspector General/Information Technology
Edward F. Cincinnati	.....	Assistant Inspector General/Administration
Matt Jadacki	.....	Special Inspector General/Gulf Coast Hurricane Recovery
Tamara Faulkner	.....	Congressional Liaison and Media Affairs
Denise S. Johnson	.....	Executive Assistant to the Inspector General

Appendix 7

OIG Headquarters/Field Office Contacts and Locations

Locations of Audit Field Offices

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Atlanta, GA 30341
(770) 220-5228 / Fax (770) 220-5259

Boston, MA

10 Causeway Street, Suite 465
Boston, MA 02222
(617) 223-8600 / Fax (617) 223-8651

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55 W. Monroe St., Suite 1010
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3900 Karina St., Suite 224
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(940) 891-8900 / Fax (940) 891-8948

Houston, TX

5850 San Felipe Rd., Suite 300
Houston, TX 77057
(713) 706-4611 / Fax (713) 706-4625

Indianapolis, IN

5915 Lakeside Blvd.
Indianapolis, IN 46278
(317) 298-1596 / Fax (317) 298-1597

Kansas City, MO

901 Locust, Suite 470
Kansas City, MO 64106
(816) 329-3880 / Fax (816) 329-3888

Los Angeles, CA

222 N. Sepulveda Blvd., Suite 1680
El Segundo, CA 90245
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3401 SW 160th Ave., Suite 320
Miramar, FL 33027
(954) 538-7842 / Fax (954) 602-1034

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5002 D Lincoln Drive West
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Nisky Center, Suite 210
St. Thomas, VI 00802
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Appendix 7

OIG Headquarters/Field Office Contacts and Locations

Locations of Investigative Field Offices

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Buffalo, NY

c/o U.S. Attorney's Office
138 Delaware Ave., Room 524
Buffalo, NY 14202
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Chicago, IL

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Chicago, IL 60603
(312) 886-2800 / Fax (312) 886-2804

Dallas, TX

3900 Karina St., Suite 228
Denton, TX 76208
(940) 891-8930 / Fax (940) 891-8959

Del Rio, TX

Amistad National Recreation Area
4121 Highway 90 West
Del Rio, TX 78840
(830) 775-7492 x239

Detroit, MI

Levin Federal Courthouse
231 W. Lafayette, Suite 1044
Detroit, MI 48226
(313) 226-2163 / Fax (313) 226-6405

El Centro, CA

516 Industry Way, Suite B
Imperial, CA 92251
(760) 335-3900 / Fax (760) 335-3726

El Paso, TX

1200 Golden Key Circle, Suite 230
El Paso, TX 79925
(915) 629-1800 / Fax (915) 594-1330

Houston, TX

5850 San Felipe Rd., Suite 300
Houston, TX 77057
(713) 706-4600 / Fax (713) 706-4622

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Appendix 7

OIG Headquarters/Field Office Contacts and Locations

Locations of Investigative Field Offices

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New York City, NY

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Philadelphia, PA

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San Francisco, CA

300 Frank H. Ogawa Plaza, Suite 275
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San Juan, PR

654 Plaza
654 Munoz Rivera Ave., Suite 1700
San Juan, PR 00918
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Seattle, WA

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St. Thomas, VI

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St. Thomas, VI 00802
(340) 777-1792 / Fax (340) 777-1803

Tucson, AZ

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Tucson, AZ 85741
(520) 229-6421 / Fax (520) 670-5246

Washington, DC

(Washington Field Office)
1300 North 17th St., Suite 510
Arlington, VA 22209
(703) 235-0848 / Fax (703) 235-0854

Yuma, AZ

775 E. 39th St., Room 216
Yuma, AZ 85365
(928) 314-9640

Appendix 7

OIG Headquarters/Field Office Contacts and Locations

Locations of Gulf Coast Hurricane Recovery Field Offices

Austin, TX

Northview Business Center
9001 North I-35
Austin, TX 78753
(512) 908-8700 / Fax (512) 977-4640

Baton Rouge, LA

FEMA JFO/DR 1603-LA
415 N. 15th Street
Baton Rouge, LA 70802
(225) 242-6000 / Fax (225) 379-4020

Biloxi, MS

2350 Beach Blvd.
Biloxi, MS
(220) 385-5605

Jackson, MS

FEMA JFO
515 Amite Street
Jackson, MS 39201
(601) 965-2599 / Fax (601) 965-2432

Montgomery, AL

1555 Eastern Boulevard
Montgomery, AL 36117
(334) 409-4634

New Orleans, LA

One Seine Court, Room 316
New Orleans, LA 70114
(504) 762-2151
(504) 762-2873 fax

Orlando, FL

100 Sun Port Lane
Orlando, FL 32809
(407) 856-3204

October 1, 2005 – March 31, 2006

Appendix 8 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
Review of Legislation and Regulations	54
Significant Problems, Abuses, and Deficiencies	6-51
Recommendations with Significant Problems	6-51
Prior Recommendations Not Yet Implemented	53-54
Matters Referred to Prosecutive Authorities	2
Summary of Instances Where Information Was Refused	N/A
Listing of Audit Reports	62-72
Summary of Significant Audits	6-51
Reports with Questioned Costs	58-59; 66-72
Reports Recommending That Funds Be Put To Better Use	60
Summary of Reports in Which No Management Decision Was Made	53-54; 58-60
Revised Management Decisions	N/A
Management Decision Disagreements	N/A

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OIG Hotline

To report alleged fraud, waste, abuse or mismanagement, or any other kind of criminal or noncriminal misconduct relative to department programs or operations, write to DHS Office of Inspector General/MAIL STOP 2600, Attention: Office of Investigations - Hotline, 245 Murray Drive, SW, Building 410, Washington, DC 20528; fax the complaint to (202) 254-4292 or email DHSOIGHOTLINE@dhs.gov. The OIG seeks to protect the identity of each writer.