

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

United States Coast Guard's Management Letter for
FY 2012 DHS Consolidated Financial Statements Audit





OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

APR 4 2013

MEMORANDUM FOR: Rear Admiral Stephen P. Metruck
Assistant Commandant for Resources,
Chief Financial Officer
United States Coast Guard

FROM: Anne L. Richards 
Assistant Inspector General for Audits

SUBJECT: *United States Coast Guard's Management Letter for
FY 2012 DHS Consolidated Financial Statements Audit*

Attached for your information is our final report, *United States Coast Guard's Management Letter for FY 2012 DHS Consolidated Financial Statements Audit*. This report contains observations related to internal control deficiencies that were not required to be reported in the *Independent Auditors' Report on DHS' FY 2012 Financial Statements and Internal Control over Financial Reporting*. Internal control deficiencies that are considered significant deficiencies were reported, as required, in the *Independent Auditors' Report*, dated November 14, 2012, which was included in the DHS fiscal year (FY) 2012 *Annual Financial Report*. We do not require management's response to the recommendations.

The independent public accounting firm KPMG LLP conducted the audit of DHS' FY 2012 financial statements and is responsible for the attached management letter dated March 12, 2013, and conclusions expressed in it. We do not express opinions on DHS' financial statements or internal control, nor do we provide conclusions on compliance with laws and regulations.

Please call me with any questions, or your staff may contact Mark Bell, Deputy Assistant Inspector General for Audits, at (202) 254-4100.

Attachment



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

March 12, 2013

Office of Inspector General
U.S. Department of Homeland Security, and
Chief Financial Officer,
U.S. Department of Homeland Security United States Coast Guard
Washington, DC

Ladies and Gentlemen:

We have audited the balance sheet of the U.S. Department of Homeland Security (DHS or Department) as of September 30, 2012 and the related statements of net cost, changes in net position and custodial activity, and combined statement of budgetary resources for the year then ended (referred to herein as the “fiscal year (FY) 2012 financial statements”). The objective of our audit was to express an opinion on the fair presentation of these financial statements. We were also engaged to examine the Department’s internal control over financial reporting of the FY 2012 financial statements, based on the criteria established in Office of Management and Budget (OMB), Circular No. A-123, *Management’s Responsibility for Internal Control*, Appendix A.

Our *Independent Auditors’ Report*, issued on November 14, 2012, describes a limitation on the scope of our audit that prevented us from performing all procedures necessary to express an unqualified opinion on the DHS’ FY 2012 financial statements and internal control over financial reporting. In addition, the FY 2012 DHS *Secretary’s Assurance Statement* states that the Department was able to provide qualified assurance that internal control over financial reporting was operating effectively at September 30, 2012. We have not considered internal control since the date of our *Independent Auditors’ Report*.

In accordance with *Government Auditing Standards*, our *Independent Auditors’ Report*, referred to in the paragraph above, included internal control deficiencies identified during our audit, that individually, or in aggregate, represented a material weakness or a significant deficiency.

The United States Coast Guard (USCG) is a component of DHS. We noted certain matters, related to USCG, that are summarized in the Table of Financial Management Comments on the following pages, involving internal control and other operational matters that are less severe than a material weakness or a significant deficiency, and consequently are reported separately to the Office of Inspector General (OIG) and USCG management in this letter. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. The disposition of each internal control deficiency identified during our FY 2012 audit – as either reported in our *Independent Auditors’ Report*, or herein – is presented in Appendix A. The status of internal control deficiencies identified during our FY 2011 audit is presented in Appendix B. Our findings related to information technology systems security have been presented in a separate letter to the OIG and the USCG Chief Information Officer and Chief Financial Officer.

We would be pleased to discuss these comments and recommendations with you at any time. This report is intended for the information and use of the DHS’ and USCG’s management, the DHS OIG, the U.S. OMB, the U.S. Congress, and the Government Accountability Office, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

United States Coast Guard
Table of Financial Management Comments
September 30, 2012

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FMC 12-01 – Fund Balance with Treasury (FBwT) Reconciliations (NFR Nos. USCG 12-03 and USCG-12-03a)

During our testwork over FBwT as of March 31, 2012, we identified the following conditions:

- The United States Coast Guard (USCG) did not properly research and resolve all differences identified during the monthly SF-224 reconciliation.
- The monthly Government-Wide Accounting/Central Accounting Reporting System (Financial Management Service 6653/4) reconciliation was performed subsequent to the submission of financial data to the Department, and reconciling items were not researched and resolved. The reconciliation did not result, therefore, in timely, fully supported resolution of the differences identified.
- Regional finance center payment schedules initiated by USCG directing Treasury to issue checks or other payments were able to be altered by personnel in the systems group prior to transmission through mid-March 2012; at that time, USCG modified the system roles in the Core Account System to prevent unauthorized changes.

During our testwork over FBwT as of September 30, 2012, we identified the following condition:

- USCG did not properly research and resolve all differences between their SF-224 data and Treasury Intragovernmental Payment and Collection (IPAC) and regional finance center systems prior to submitting their SF-224 to Treasury.

Recommendations:

We recommend that the USCG:

- Investigate the effect of reporting on the SF-224 only what is recorded in the general ledger (GL) at the time of close.
- Continue to perform the detective controls including the management review and approval of cash differences.
- Ensure that the reports are prepared using the most current Treasury guidance.

FMC 12-02 – Expense Process (NFR Nos. USCG 12-05 and 12-05a)

During our evaluations covering fiscal year (FY) 2012 expense transactions, we noted the following control deficiencies:

- USCG did not record Accounts Payable, Delivered Orders–Obligations Unpaid, and the relevant asset or expense account at the time goods or services were received. Rather, items were recorded as an Accounts Payable or Delivered Order when paid.
- USCG was unable to provide documentation to evidence that the required approval of payment was obtained prior to the transfer of funds for all IPAC transactions. Further, USCG was unable to provide documentation of when goods/services were received.
- USCG was unable to provide documentation that all purchase orders were properly reviewed and approved by a Contracting Officer (CO).
- USCG was unable to provide purchase request forms to support all expense amounts.
- The Core Accounting System associated the incorrect trading partner identification numbers with some Federal vendors.
- USCG did not properly record liabilities for all General Services Administration (GSA) cancelable lease payables. Payables and obligations should be recorded for the minimum lease term until cancellation.

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- USCG expensed more than the amount obligated for travel orders.
- USCG did not properly record expense transactions in all cases. Specifically, a cost incurred in FY 2011 was improperly recorded in FY 2012, and the object class was improperly recorded to the Core Accounting System.

As a result of the exceptions identified, through FY 2012 expense testwork, we noted total projected misstatements to Operating Expenses (United States Standard General Ledger (USSGL) Account 6100) of approximately \$20.6 million.

Recommendations:

We recommend that the Coast Guard:

- Perform work in FY 2013 to assess feasibility of implementing a receipting function in order to address the timing issues between delivery of goods and services and the recording of an accounts payable.
- Evaluate the IPAC process to refine procedures such that needed notification of receipt of goods and services are met.
- Revise current procedures related to procurement such that:
 - Necessary reviews are conducted and signatures are obtained for all purchase orders.
 - Approval is received prior to processing payments.
 - Purchase request forms are properly maintained to support expenses.
 - Payables and obligations of minimum lease terms until cancellation are properly recorded.
 - Adequate obligation amounts are required prior to expensing travel orders.
 - Consistent and adequate documentation of incorrectly posted expenses will be properly maintained to support reversals/adjustments.
 - Accounting transactions are properly selected to prevent recordation of liabilities for amounts already paid.
 - A monthly reclassification to correctly post benefits to USSGL Account 6400 is performed.
 - Reconciliations to capture accurate expense activity in the Aviation Logistics Management Information System are performed.
- Document and implement a standardized policy to ensure that correct trading partner identification numbers are associated with the proper Federal vendors.
- Verify that procedures are performed as documented to ensure transactions are expenses in the proper period and recorded to the proper line of accounting.

FMC 12-03 – Accounts Receivable and Debt Collection Improvement Act (DCIA) Compliance
(NFR No. USCG 12-11)

During our evaluation of Coast Guard’s internal controls and account balances for Cost Recovery Accounts Receivable related to the Oil Spill Liability Trust Fund, we noted the following:

- 11 of 58 National Pollution Fund Center receivable balances that were more than 180 days past due were not properly referred to Treasury as of March 31, 2012.
- National Pollution Fund Center was unable to provide support for “Unbilled Cost Recovery” amounts used to calculate the Incurred but Not Reported amount as of March 31, 2012.
- The underlying data used to determine the amount of Unbilled Incurred but Not Reported for Deepwater Horizon was not complete and accurate as of March 31, 2012.

- National Pollution Fund Center did not review and approve rates applied to reserve amounts for Cost Recovery Accounts Receivable for FY 2012.

Recommendations:

We recommend that Coast Guard:

- Design and implement effective internal controls to ensure outstanding Oil Spill Liability Trust Fund accounts receivable are referred to Treasury or the Department of Justice for collection prior to becoming 180 days delinquent.
- Develop and maintain detail reports that support outstanding accounts receivable Oil Spill Liability Trust Fund summary balances.
- Design and implement internal controls for reviewing the Deepwater Horizon Incurred but Not Reported calculation.
- Develop and implement procedures for review and approval of the annual Oil Spill Liability Trust Fund allowance for doubtful accounts rate table calculation.

FMC 12-04 – Operating Materials and Supplies (OM&S) (NFR No. USCG 12-16)

During our FY 2012 evaluations over the balance of OM&S, we noted the following control deficiencies:

- Logistics centers were unable to provide sufficient support for all transactions selected for testwork.
- Logistics centers had errors in various weighted average pricing calculations.

As a result of the exceptions identified, through FY 2012 expense testwork, we noted total projected misstatements to OM&S (USSGL Account 1511) at September 30, 2012 of \$12.3 million.

Recommendations:

We recommend that Coast Guard:

- Determine the underlying cause for the inability to support the Quantity On Hand in order to determine what caused the issue to ensure it is prevented in the future.
- Correct the underlying system error that caused the miscalculation.

FMC 12-05 – Financial Disclosure Reports (NFR No. USCG 12-17)

During Entity Level Control testwork, KPMG noted the following:

- The USCG does not have adequate procedures in place to ensure new entrants to Confidential Financial Disclosure Report filing positions are required to file a New Entrant Confidential Financial Disclosure Report.
- KPMG selected a sample of 25 Public Financial Disclosure Reports filed in 2012 and noted that one of the reports was not properly reviewed and approved by the Designated Agency Ethics Official (DAEO), the Chief Counsel of the USCG.

Recommendation:

We recommend that Coast Guard continuously evaluate and strengthen internal controls related to the Confidential Financial Disclosure Report and Public Financial Disclosure Report filings to

United States Coast Guard
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September 30, 2012

ensure full compliance with all Confidential Financial Disclosure Report and Public Financial Disclosure Report program rules.

United States Coast Guard
Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2012

NFR No.	Description	Disposition ¹			
		IAR			FMC
		MW	SD	NC	No.
12-01	Property Plant and Equipment (PP&E) Site Visit Observations	C			
12-02	Stewardship PP&E	C			
12-02a	Stewardship PP&E, Appended	C			
12-03	Fund Balance with Treasury (FBwT) Reconciliations				12-01
12-03a	FBwT Reconciliations				12-01
12-04	Opening Balances	A			
12-05	Expense Process	E			12-02
12-05a	Expense Process	E			
12-06	PP&E Asset Records	C			
12-07	Environmental and Disposal Liabilities Process Controls	D			
12-08	Non-Generally Accepted Accounting Principles Analysis	A			
12-09	Reimbursable Agreements	E			
12-10	Lease Recordation Process	C			
12-11	Accounts Receivable and Debt Collection Improvement Act (DCIA) Compliance				12-03
12-12	Accounts Payable	D			
12-13	Financial Statements – Impacting Scripts	B			
12-14	Recoveries of Prior Year Unpaid Obligations	E			
12-14a	Recoveries of Prior Year Unpaid Obligations				
12-15	Intragovernmental Transactions and Balances	A			
12-16	Operating Materials and Supplies				12-04
12-17	Financial Disclosure Reports				12-05
12-18	Undelivered Orders (UDOs)	E			
12-19	Construction in Progress (CIP)	C			
12-20	Federal Financial Management Improvement Act (FFMIA)			J	
12-21	Financial Reporting Process	A			
12-22	Real Property	C			
12-23	Federal Managers' Financial Integrity Act (FMFIA)			I	
12-24	Manual Journal Vouchers (JVs) and On-Top Adjustments	A			

¹Disposition Legend:

IAR Independent Auditors' Report dated November 14, 2012

FMC Financial Management Comment

MW Contributed to a Material Weakness at the Department level when combined with the results of all other components

SD Contributed to a Significant Deficiency at the Department level when combined with the results of all other components

NC Contributed to Non-Compliance with laws, regulations, contracts, and grant agreements at the Department level when combined with the results of all other components

NFR Notice of Finding and Recommendation

United States Coast Guard
Crosswalk – Financial Management Comments to Active NFRs
September 30, 2012

Cross-reference to the applicable sections of the IAR:

A	Financial Reporting
B	Information Technology Controls and System Functionality
C	Property, Plant, and Equipment
D	Environmental and Other Liabilities
E	Budgetary Accounting
F	Entity-Level Controls
G	Grants Management
H	Custodial Revenue and Drawback
I	<i>Federal Managers' Financial Integrity Act of 1982 (FMFIA)</i>
J	<i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i>
K	<i>Single Audit Act Amendments of 1996</i>
L	<i>Antideficiency Act, as amended (ADA)</i>

United States Coast Guard
Status of Prior Year NFRs
 September 30, 2012

NFR No.	Description	Disposition ¹	
		Closed ²	Repeat (2011 NFR No.)
11-01	Environmental Liabilities		USCG 12-07
11-02	Heritage Assets		USCG 12-02
11-03	Financial Management Oversight	X	
11-04	Statement of Net Cost	X	
11-05	Fund Balance with Treasury Reconciliations		USCG 12-03
11-06	Cumulative Results of Operations	X	
11-07	Undelivered Orders		USCG 12-18
11-08	Legal Liability Reporting	X	
11-09	Accrued Payroll and Unfunded Leave Accrual (Military)	X	
11-10	Accrued Payroll and Unfunded Leave Accrual	X	
11-11	Financial Reporting Process		USCG 12-04
11-12	Accounts Payable Accrual		USCG 12-12
11-13	Financial Disclosure Reports		USCG 12-17
11-14	Purchase Requests/Commitments	X	
11-15	Accounts Receivable		USCG 12-11
11-16	Operating Materials and Supplies		USCG 12-16
11-17	Property Plant and Equipment (PP&E) Non-Construction in Progress (CIP) Assets		USCG 12-19
11-18	Federal Managers' Financial Integrity Act of 1982		USCG 12-23
11-19	PP&E Asset Records		USCG 12-06, USCG 12-10
11-20	Human Resources Compliance with Laws and Regulations	X	
11-21	Intragovernmental Transactions and Balances		USCG 12-15
11-22	PP&E: Repairables	X	
11-23	PP&E: CIP		USCG 12-19
11-24	Actuarial Medical Liabilities	X	
11-25	Federal Managers' Financial Integrity Act of 1996		USCG 12-20
11-26	PP&E: 4th Quarter Site Visit Observations		USCG 12-01

¹ KPMG was engaged to perform an audit over the DHS balance sheet as of September 30, 2012, and the related statements of net cost, changes in net position and custodial activity, and combined statement of budgetary resources for the year then ended. In addition, we were engaged to follow up on the status of all active NFRs that supported significant deficiencies reported in our FY 2011 *Independent Auditors' Report*.

² The scope of our audit was limited to follow-up on NFRs that supported a material weakness or significant deficiency as reported in our *Independent Auditors' Report*. All other NFRs, e.g., that described insignificant findings, and therefore presented to DHS management as observations for consideration, were considered closed.



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Appendix C
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