

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

United States Coast Guard's Management Letter for FY 2013 DHS Financial Statements Audit





OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

APR 21 2014

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

FROM: *for* Anne L. Richards *Mark Bell*
Assistant Inspector General for Audits

SUBJECT: *United States Coast Guard's Management Letter for
FY 2013 DHS Financial Statements Audit*

Attached for your information is our final report, *United States Coast Guard's Management Letter for FY 2013 DHS Financial Statements Audit*. This report contains three comments and five recommendations related to internal control deficiencies that were not required to be reported in the *Independent Auditors' Report on DHS' FY 2013 Financial Statements and Internal Control over Financial Reporting*. Internal control deficiencies which are considered significant deficiencies were reported, as required, in the *Independent Auditors' Report*, dated December 11, 2013, which was included in the Department of Homeland Security's (DHS) fiscal year (FY) 2013 Agency Financial Report. We do not require management's response to the recommendations.

We contracted with the independent public accounting firm KPMG LLP (KPMG) to conduct the audit of the DHS' FY 2013 financial statements and internal control over financial reporting. The contract required that KPMG perform its audit according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG is responsible for the attached management letter dated January 15, 2014, and the conclusions expressed in it.

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

January 15, 2014

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

Ladies and Gentlemen:

We have audited the financial statements of the U.S. Department of Homeland Security (DHS or Department) for the year ended September 30, 2013 (referred to herein as the “fiscal year (FY) 2013 financial statements”), and have issued our report thereon dated December 11, 2013. In planning and performing our audit of the financial statements of DHS, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. In conjunction with our audit of the financial statements, we also performed an audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The U.S. Coast Guard (USCG or Coast Guard) is a component of DHS. During our audit, we noted certain matters involving internal control and other operational matters, related to Coast Guard, that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. These matters are summarized in the Table of Financial Management Comments on the following pages. The disposition of each internal control deficiency identified during our FY 2013 audit – as either reported in our *Independent Auditors’ Report*, or herein – is presented in Appendix A. Our findings related to information technology systems have been presented in a separate letter to the DHS Office of Inspector General, the Coast Guard Chief Information Officer, and Chief Financial Officer.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and on the effectiveness of internal control over financial reporting, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of Coast Guard’s organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

The purpose of this letter is solely to describe comments and recommendations intended to improve internal control or result in other operating efficiencies. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

U.S. Coast Guard
Table of Financial Management Comments
September 30, 2013

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

Comment Reference	Subject	Page
FMC 13-01	Civilian Payroll and Human Resources	2
FMC 13-02	Financial Disclosure Reports	2
FMC 13-03	New Hire Ethics Requirements	3

APPENDIX

Appendix	Subject	Page
A	Crosswalk – Financial Management Comments to Active Notices of Finding and Recommendation (NFRs)	4

U.S. Coast Guard
Financial Management Comments
September 30, 2013

FMC 13-01 – Civilian Payroll and Human Resources (*Notice of Finding and Recommendation (NFR) No. U.S. Coast Guard (USCG or Coast Guard) 13-05*)

Coast Guard's time sheet review and approval for civilian payroll was not fully effective throughout the year. Specifically, Coast Guard was unable to provide supporting documentation for compensation time and overtime requests recorded on timesheets.

During our testwork over civilian personnel actions at Coast Guard, we noted a lack of formal, documented procedures and controls in place throughout the year to ensure the segregation of duties for the initiator and approver of requested personnel actions. As a result, the potential existed for an individual to both enter and approve a personnel action without it being detected and corrected in a timely manner.

Coast Guard's controls over administration of the Federal Employees Health Benefits (FEHB) Program for civilian employees were not fully effective during fiscal year 2013. During testwork, we noted that FEHB payments were not accurate for one of the five samples tested. Specifically, no payments were made to FEHB for 24 pay periods for a Coast Guard employee who transferred from another Federal agency to Coast Guard.

Recommendations:

We recommend that Coast Guard:

- Issue reminders to supervisors regarding the requirement for appropriate review and approval of leave, premium pay, and time and attendance. In addition, Coast Guard should require annual webTA training for all supervisors. This could include repeating the webTA supervisor training module that is required when they first become a supervisor.
- Ensure proper system access is in place to prevent an employee from initiating and approving documents. When this is not possible, the Coast Guard should have clear policies and procedures in place outlining who is permitted to sign specific documents as well as who is responsible for the review of those documents.
- Develop a more robust civilian human resources review process that incorporates a "Payroll Processing Checklist" (including Federal benefit/information forms) to ensure the timely input and verification of Entry on Duty documents.

FMC 13-02 – Financial Disclosure Reports (*NFR No. USCG 13-12*)

Controls over the Confidential Financial Disclosure Forms (CFDR) process were not fully effective during FY 2013. Specifically, we noted that of the 25 samples tested:

- One CFDR was completed on March 13, 2013, after the February 15 filing deadline without evidence of a filing extension.
- The Office of Government Ethics (OGE) form OGE-450 was not properly reviewed and approved for one employee who filed an OGE-450 in 2012 and the OGE Optional 450-A in 2013.

U.S. Coast Guard
Financial Management Comments
September 30, 2013

Recommendation:

We recommend that Coast Guard evaluate and strengthen internal controls related to CFDR and Public Financial Disclosure Form (PFDR) filings to ensure compliance with all CFDR and PFDR Program rules.

FMC 13-03 – New Hire Ethics Requirements (*NFR No. USCG 13-13*)

Coast Guard lacked policies and procedures to track and monitor compliance with initial ethics training requirements for new hires.

Recommendation:

We recommend that Coast Guard develop and implement policies and procedure to ensure that all new personnel complete the required ethics training. Additionally, Coast Guard should implement procedures to continuously evaluate and strengthen internal controls, policies, and procedures related to new hire ethics training to ensure full compliance with applicable regulations.

U.S. Coast Guard
Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2013

Component	NFR No.	Description	Disposition ¹			
			MW	SD	NC	FMC No.
USCG	13-01	Financial Reporting Process	A			
USCG	13-02	Fund Balance with Treasury	A			
USCG	13-03	Construction in Process	A, C			
USCG	13-04	Operating Expense Process	A			
USCG	13-05	Civilian Payroll and Human Resources				13-01
USCG	13-06	Legal Liabilities Reporting		F		
USCG	13-07	Preparation of Non-GAAP Analysis	A			
USCG	13-08	Financial Reporting Process	A			
USCG	13-09	Preparation of GAO Financial Audit Manual 2010 Checklist	A			
USCG	13-10	Inadequate Controls over the Accounting of St. Elizabeths Lease and Related Leasehold Improvements	A, C			
USCG	13-11	Accounts Payable Accrual		F		
USCG	13-12	Financial Disclosure Reports				13-02
USCG	13-13	New Hire Ethics Requirements				13-03
USCG	13-14	Budgetary Process	A, D			
USCG	13-15	Property, Plant, and Equipment Site Visit Observations	A, C			
USCG	13-16	Personal Property and Equipment	A, C			
USCG	13-17	Intragovernmental Transactions and Balances	A			
USCG	13-18	Leases and Leasehold Improvements	A, C			
USCG	13-19	Internal Use Software and Internal Use Software in Development	A, C			
USCG	13-20	Heritage Assets and Stewardship Property	C			
USCG	13-21	Operating Materials and Supplies	A			
USCG	13-22	Real Property	A, C			
USCG	13-23	Environmental and Disposal Liabilities		F		
USCG	13-24	Entity Level Controls		E		
USCG	13-25	Manual Journal Entries and On-Top Adjustments	A			
USCG	13-26	Federal Financial Management Improvement Act of 1996	A		J	
USCG	13-27	Scripts Process	A			
USCG	13-28	Compliance with the Federal Managers' Financial Integrity Act			I	

U.S. Coast Guard
Crosswalk – Financial Management Comments to Active NFRs
September 30, 2013

¹Disposition Legend:

IAR	Independent Auditors' Report dated December 11, 2013
FMC	Financial Management Comment
MW	Contributed to a Material Weakness at the Department level when combined with the results of all other components
SD	Contributed to a Significant Deficiency at the Department level when combined with the results of all other components
NC	Contributed to Non-Compliance with laws, regulations, contracts, and grant agreements at the Department level when combined with the results of all other components
NFR	Notice of Finding and Recommendation

Cross-reference to the applicable sections of the IAR:

A	Financial Reporting
B	Information Technology Controls and Financial Systems Functionality
C	Property, Plant, and Equipment
D	Budgetary Accounting
E	Entity-Level Controls
F	Liabilities
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>



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix A
Report Distribution

Department of Homeland Security

Secretary
Deputy Secretary
Chief of Staff
Deputy Chief of Staff
General Counsel
Executive Secretary
Director, GAO/OIG Liaison Office
Assistant Secretary for Office of Policy
Assistant Secretary for Office of Public Affairs
Assistant Secretary for Office of Legislative Affairs
Chief Privacy Officer

United States Coast Guard

Commandant
Chief Financial Officer
Audit Liaison

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees, as appropriate

ADDITIONAL INFORMATION

To view this and any of our other reports, please visit our website at: www.oig.dhs.gov.

For further information or questions, please contact Office of Inspector General (OIG) Office of Public Affairs at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov, or follow us on Twitter at: [@dhsoig](https://twitter.com/dhsoig).

OIG HOTLINE

To expedite the reporting of alleged fraud, waste, abuse or mismanagement, or any other kinds of criminal or noncriminal misconduct relative to Department of Homeland Security (DHS) programs and operations, please visit our website at www.oig.dhs.gov and click on the red tab titled "Hotline" to report. You will be directed to complete and submit an automated DHS OIG Investigative Referral Submission Form. Submission through our website ensures that your complaint will be promptly received and reviewed by DHS OIG.

Should you be unable to access our website, you may submit your complaint in writing to:

Department of Homeland Security
Office of Inspector General, Mail Stop 0305
Attention: Office of Investigations Hotline
245 Murray Drive, SW
Washington, DC 20528-0305

You may also call 1(800) 323-8603 or fax the complaint directly to us at (202) 254-4297.

The OIG seeks to protect the identity of each writer and caller.