

OFFICE OF INSPECTOR GENERAL

**Management Letter for
the Department of
Homeland Security's
Fiscal Year 2016 Financial
Statements Audit**



Homeland
Security

April 27, 2017
OIG-17-52



DHS OIG HIGHLIGHTS

Management Letter for the Department of Homeland Security's Fiscal Year 2016 Financial Statements Audit

April 27, 2017

Why We Did This Report

The *Chief Financial Officers Act of 1990* (Public Law 101-576) and the *Department Of Homeland Security Financial Accountability Act* (Public Law 108-330) require us to conduct an annual audit of the Department of Homeland Security's (DHS) consolidated financial statements and internal control over financial reporting.

During the FY 2016 audits of DHS' consolidated financial statements and internal control over financial reporting, KPMG LLP noted certain matters involving internal control and other operational matters, which are presented in this report for management's consideration.

For Further Information:

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

What We Found

The independent public accounting firm KPMG LLP (KPMG), under contract with the DHS Office of Inspector General, audited DHS' fiscal year (FY) 2016 consolidated financial statements and internal control over financial reporting. KPMG expressed an unmodified (clean) opinion on the consolidated financial statements, and issued an adverse opinion on DHS' internal control over financial reporting for FY 2016. The management letter contains 103 observations related to internal control and other operational matters for management's consideration. KPMG noted deficiencies and the need for improvement in certain processes. These deficiencies did not meet the criteria to be reported in the *Independent Auditors' Report on DHS' FY 2016 Financial Statements and Internal Control over Financial Reporting*, dated November 14, 2016, included in the DHS FY 2016 *Agency Financial Report*.

Management's Response

DHS' Office of Chief Financial Officer concurred with the report's observations and has indicated that the Department remains fully committed to addressing its financial management challenges.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

April 27, 2017

MEMORANDUM FOR: Stacy Marcott
Acting Chief Financial Officer

FROM: John V. Kelly 
Deputy Inspector General

SUBJECT: *Management Letter for the Department of Homeland Security's Fiscal Year 2016 Financial Statements Audit*

Attached for your action is our final report, *Management Letter for the Department of Homeland Security's Fiscal Year 2016 Financial Statements Audit*. This report contains observations related to internal control deficiencies that were not required to be reported in the *Independent Auditors' Report* over DHS' fiscal year (FY) 2016 financial statements and internal control over financial reporting. Internal control deficiencies were reported, as required, in the *Independent Auditors' Report on DHS' FY 2016 Financial Statements and Internal Control over Financial Reporting*, dated November 14, 2016, included in the DHS' FY 2016 *Agency Financial Report*. We do not require management's response to the recommendations.

The independent public accounting firm KPMG LLP (KPMG) conducted the audit of DHS' FY 2016 financial statements and is responsible for the attached management letter dated December 8, 2016 and the conclusions expressed in it.

Please call me with any questions, or your staff may contact Maureen Duddy, Deputy Assistant Inspector General for Audits, at (617) 565-8723.

Attachment



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

December 8, 2016

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

Ladies and Gentlemen:

In planning and performing our audit of the consolidated general purpose and closing package financial statements (hereinafter referred to as the “financial statements”) of the U.S. Department of Homeland Security (DHS or Department), as of and for the year ended September 30, 2016, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, we considered the Department’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements. In conjunction with our audit of the general purpose financial statements, we also performed an audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants.

During our audit we noted certain matters involving internal control and other operational matters 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. Sections I through XII of this letter provide our observations for your consideration, and have been indexed in the Table of Financial Management Comments. The disposition of each internal control deficiency identified during our FY 2016 audits – as either reported in our *Independent Auditors’ Report*, or herein as a financial management letter comment – is presented in Appendix A. Our findings related to information technology systems have been presented in a separate letter to the DHS Office of Inspector General, DHS Chief Information Officer, and DHS 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 DHS’s organization gained during our work to make comments and suggestions that should 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.



The Department's response to the deficiencies identified in our audit is described in Appendix B. DHS's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Very truly yours,

KPMG LLP

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Financial Management Comments and Recommendations
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I. CUSTOMS AND BORDER PROTECTION (CBP)

CBP – Financial Management Comment (FMC) 16-01 – Lack of Heritage Asset Collections Monitoring Controls (*Notice of Finding and Recommendation (NFR) No. CBP 16-04*)

CBP lacked formally documented policies and procedures to ensure all assets comprising the collections of documents and artifacts were appropriately reviewed, classified, recorded, and safeguarded in accordance with Statements of Federal Financial Accounting Standards (SFFAS) No. 29, *Heritage Assets and Stewardship Land*. Additionally, CBP did not have controls in place to ensure all new and/or potential heritage assets were identified at ports of entry, Customs Houses and field units, and reported to the Historical Program Office.

We noted the *U.S. Customs and Border Protection Public Affairs Policy Handbook* was developed in fiscal year (FY) 2015, which assigned responsibility for the management and reporting of heritage assets as follows:

- Historical Program Office is responsible for management of heritage assets in the Ronald Reagan Building.
- The national and international field offices are responsible for management of heritage assets located in respective ports of entry, border patrol sectors and stations, and air and marine installations.
- The Office of Administration is responsible for the reporting of heritage assets.

However, CBP management has not approved the policy or formally issued it across the organization.

Recommendation:

CBP should allocate resources to develop and implement detailed standard operating procedures for the Historical Program Office and national and international field offices to ensure complete and accurate reporting and safeguarding of heritage assets.

CBP – FMC 16-02 – Inadequate Controls over Settlement of Assets (*NFR No. CBP 16-05*)

We selected a statistical sample of 15 general property, plant, and equipment asset settlement transactions recorded from October 1, 2015, through May 31, 2016, and identified the following:

- Two instances in which the placed-in-service date per the financial system of record did not agree to the date that custodianship transferred to CBP reflected on the Joint Acceptance Inspection Report (JAIR). Consequently, more than 30 days elapsed between the time in which a completed asset had been accepted by CBP (placed-into-service) and the time in which CBP recorded the applicable transaction to move the asset from Construction-in-Progress to in-use.
- One instance in which the final asset value was not adjusted to the final invoiced amount within 30 days of receiving the final invoice.

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We selected a sample of six construction in progress assets with no activity between October 1, 2015, and July 31, 2016, and identified the following:

- Three instances in which more than 30 days elapsed between when a completed asset had been placed into service and when CBP recorded the applicable transaction to move the asset from construction in progress to in-use. One of the three late settlements crossed reporting periods. As a result of the late settlements, depreciation for the asset was understated from the time between when the asset was placed into service to when the asset was settled. CBP adjusted depreciation to the correct amount at the time the asset was placed into service.

We selected a statistical sample of 17 general property, plant, and equipment asset settlement transactions recorded from June 1, 2016, through September 30, 2016, and identified the following:

- Two instances in which more than 30 days elapsed between the time in which a completed asset had been placed into service and the time in which CBP recorded the applicable transaction to move the asset from construction in progress to in-use. As a result of the late settlements, depreciation for the asset was understated. CBP adjusted depreciation at the time the asset was placed into service.
- Three instances in which CBP's date of acceptance did not agree to the capitalized date per the financial system of record. The difference between the acceptance date and capitalization date did not exceed one month, thus did not have an impact on depreciation expense.

Recommendation:

CBP should draft a management action plan to update existing policies to include a requirement to provide a Certificate of Occupancy or other supporting documentation that would validate the Beneficial Occupancy Date. CBP should also develop a final settlement standard operating procedure and worksheet to assist with oversight of projects, and to ensure timely recording of assets.

CBP – FMC 16-03 – Management Oversight of Property, Plant, and Equipment (NFR No. CBP 16-08)

Controls over CBP's annual personal property and equipment inventory were not operating effectively in FY 2016. During site visits to various ports of entry in July and August, we traced a sample of 91 assets from floor to book and identified the following:

- One instance in which the financial system of record had barcode and identification information that was not consistent with the information on the physical asset.
- Inconsistent tracking and recording of Radiation Portal Monitors by all locations in the financial system of record.

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Recommendation:

CBP Personal Property Program Management Office should continue to stress the importance of following existing inventory policies which require validation of information on the physical asset during physical inventories; remind personal property inventory holders of their responsibility to validate that proper procedures are followed and inventories are conducted with due diligence; improve and enhance inventory verification and validation efforts; continue to monitor asset modifications through existing internal controls; and continue to track Radiation Portal Monitor asset modification while assisting with asset value movement/transfer to each lane.

CBP – FMC 16-04 – Ineffective Controls over the Review of Federal Employees’ Compensation Act Quarterly Chargeback Reports (NFR No. CBP 16-15)

CBP did not perform a timely review of the FY 2016 third and fourth quarter chargeback detail to ensure that the totals per quarter agreed to the chargeback summary report submitted by the Department of Labor.

Recommendation:

CBP should work with the Department of Labor to ensure amounts on quarterly chargeback details are correct and that they receive the reports timely.

CBP – FMC 16-05 – Ineffective Controls over Review of Federal Employees’ Compensation Act Claim Forms (NFR No. CBP 16-16)

During our testwork over 45 claims filed in FY 2016, we identified the following:

- One instance in which the Notice of Occupational Disease and Claim for Compensation (CA-2) form was not reviewed timely in accordance with CBP’s policy. Specifically, seven months elapsed between the date the employee submitted the form and the date of the supervisor’s review.
- Four instances in which the claimant’s pay grade and step per the Federal Notice of Traumatic Injury and Claim for Continuation of Pay/Compensation (CA-1) form did not agree with the grade and step stated on the claimant’s Leave and Earnings Statement at the time of injury.

Recommendation:

CBP should perform reviews of claims in accordance with established policies and procedures.

CBP – FMC 16-06 – Deficiencies in the Public and Confidential Financial Disclosure Reporting Process (NFR No. CBP 16-18)

During our testwork over public and confidential financial disclosure reporting we identified the following:

- CBP did not have formalized policies and procedures in place during FY 2016 to govern tracking of Office of Government Ethics (OGE)-278 (public) filers in the new reporting system.
- The new entrant OGE-450 population (confidential filers) included individuals who were not required to complete new entrant filings in the current year.

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We selected a sample of 25 OGE Form 278 and 45 confidential financial disclosure reports (OGE-450) and noted that controls to ensure proper completion and review of forms were not operating effectively in FY 2016. Specifically, we identified the following:

- One instance in which the termination OGE-278 filing was not completed within the 30-day requirement.
- One instance in which the annual filer completed the OGE-278 filing by the June 20, 2016, filing deadline, but final review and certification was not completed until after the 60-day review period.
- One instance in which the initial review of the OGE-450 was completed within the 60-day requirement, but the final review and certification was not completed until after the 60-day review period.

Recommendation:

CBP should:

- Amend its draft directive on *Implementation of the OGE Form 278 Requirements* to include the new financial disclosure system.
- Request that the Indianapolis Hiring Center provide refresher training for personnel responsible for processing realignments and organization code changes.
- Follow up with Human Resource Management on prior request that Human Resources Business Engine regularly send out automatic electronic reminders to filers and reviewers whose filings and/or reviews are overdue.
- Request that the DHS Headquarters Ethics Office contact the Office of Government Ethics to request that the new reporting system issue regular automatic electronic reminders to reviewers whose reviews of OGE-278s are coming due and to reviewers whose reviews are overdue.

CBP – FMC 16-07 – Lack of Controls over Payroll Service Provider’s Implementation of the Border Patrol Agent Pay Reform Act (NFR No. CBP 16-20)

Controls were not properly designed and implemented to ensure the accuracy of all manual adjustments to payroll Leave and Earnings Statements. Specifically, during our testwork over a sample of 149 employee payroll disbursements in FY 2016, we identified two instances in which an employee was paid the Border Patrol Agent Pay Reform Act supplemental overtime payment twice on their lump sum annual leave payment upon separation from CBP. This included the associated Social Security and Medicare expense on the overpayment. CBP has not collected the overpaid amounts from employees who were overpaid upon separation.

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Recommendation:

CBP should establish controls to ensure sufficient communication with the United States Department of Agriculture, especially during the implementation of new laws and regulations that impact payroll processing.

CBP – FMC 16-08 – Ineffective Controls over the Legal Contingent Liability Management Schedule (NFR No. CBP 16-21)

We identified one instance in which the low end of the estimated range of potential loss per the September 30, 2016, Contingent Legal Liability Management Schedule did not agree to the low end of the estimated range of potential loss per the legal liability case template.

Recommendation:

CBP should review the Contingent Legal Liability Management Schedule in accordance with documented policies and procedures.

CBP – FMC 16-09 – Identification of Non-U.S. Generally Accepted Accounting Principles Policies (NFR No. CBP 16-22)

Controls over identifying and evaluating non-U.S. Generally Accepted Accounting Principles (GAAP) accounting policies were not operating effectively. Specifically, CBP's non-GAAP accounting policy analysis did not identify non-cancellable leases that were not expensed as incurred and not straight-lined over the life of the lease as a non-GAAP accounting policy.

Recommendation:

CBP should revisit and enhance procedures for identifying non-GAAP policies, including reviewing the DHS-wide non-GAAP analysis to ensure CBP is capturing non-GAAP policies identified at other DHS components.

CBP – FMC 16-10 – Ineffective Controls in the Seized and Forfeited Property Inventory Process (NFR No. CBP 16-25)

Controls over seized and forfeited property were not operating effectively. Specifically, we identified the following:

- During testwork at six seized property vaults, we identified one instance in which a 100% vault inventory was not completed within 30 days of a Seized Property Specialist permanently leaving their position, and the port did not obtain a waiver confirming this deviation was approved. The port completed an inventory during the annual inventory. No missing vault items were identified during this process.
- During testwork over tracing the inventory items into the ending Seized Assets and Case Tracking System activity population, we identified one instance in which the weight identified during our inventory was not updated in the Seized Assets and Case Tracking System.

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- During testwork over the seized and forfeited property supporting the Seized and Forfeited Property Footnote, we identified five instances in which case information was either not accurately updated in the Seized Assets and Case Tracking System or not documented appropriately on the supporting documentation.

Recommendation:

CBP should redistribute memorandum to the respective Directors, Field Operations, and Ports of Entry to re-emphasize current policies and procedures regarding the highly sensitive activities involving the custody, management, and accountability of seized property and its proper processing. Special emphasis should include the policy of performing an outgoing inventory after a Seized Property Specialist separates from his/her area of responsibility within the appropriate time limits and the submission of a waiver if there is an anticipated delay. Other special emphasis should include the importance of updating the Seized Assets and Case Tracking System and putting in place internal controls to ensure that the system has been updated with correct information.

CBP – FMC 16-11 – Ineffective Controls over the Taxes Duties and Trade Receivables Allowance (NFR No. CBP 16-29)

CBP did not design and implement sufficient controls to evaluate the appropriateness of the allowance methodology related to current Taxes Duties and Trade Receivables. Specifically, we noted nine items included in the Taxes Duties and Trade Receivables entry accrual related to Anti-Dumping and Counter-veiling Duties that were aged over 90 days and were not allowed for, but did have valid bonds at entry.

Recommendation:

CBP should establish controls to review the collectability of the Taxes Duties and Trade Receivables accrual related to Anti-Dumping and Counter-veiling Duties.

CBP – FMC 16-12 – Ineffective Controls over the Reporting of Prior Period Adjustments (NFR No. CBP 16-31)

CBP recorded and recognized a prior period adjustment in FY 2016 to correct an error related to an internal-use software asset under construction that was settled to a final asset in FY 2016. It was determined that the settlement should have taken place in FY 2014. This entry recognized prior period depreciation and reclassified the property, plant, and equipment accounts. CBP failed to notify the Department's Office of Financial Management, as required, upon the recordation and recognition of this prior period adjustment.

Recommendation:

The CBP Financial Reporting and Analysis Branch Chief should reiterate to the Financial Reporting and Analysis Branch Section Chiefs of the requirement to submit all prior period adjustments to the Department's Office of Financial Management in accordance with the Components Requirement Guide.

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CBP – FMC 16-13 – Lack of Supporting Documentation for Excise Tax Collections (NFR No. CBP 16-32)

CBP did not develop policies and procedures to retain supporting documentation for the excise tax calculation. Specifically, for three of the items selected in our sample of 107 excise tax collections, CBP was unable to explain the difference between the amount of excise taxes collected and the amount we recalculated using the Tax and Trade Bureau rates.

Recommendation:

CBP should develop policies and procedures for retention of supporting documentation for the excise tax calculation.

II. FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)

FEMA – FMC 16-01 – Ineffective Monitoring of Controls at the National Flood Insurance Program Service Provider (NFR No. FEMA 16-01)

FEMA's Federal Insurance and Mitigation Administration division did not effectively monitor the controls in place at the National Flood Insurance Program Provider. Specifically, we identified the following:

- During our testwork over the Traverse journal voucher worksheet, we identified one instance in which the review and approval of a manual journal voucher was performed by an individual who was in a position below that of the preparer of the journal voucher.
- During our testwork over the December 2015 quarterly estimates, we noted there were incorrect descriptions for assumptions listed on the quarterly estimate worksheet. These assumptions related to the calculation of the forecasting figures related to the Homeowners Flood Insurance Affordability Act Surcharge and Change in Surcharge. Even though the amounts recorded in the spreadsheet were correct, the incorrect assumptions were listed within the document; evidencing improper review and approval of the first quarter financial forecast.

Recommendation:

FEMA should:

- Ensure that its service provider has sufficient resources to maintain proper internal controls, including reviewing and approving all financial transactions, including manual journal vouchers, as described in the related standard operating procedures.
- Monitor its service provider to ensure that they develop and implement a process to review and update financial statement assumptions related to the calculation of the forecasting amounts related to the Homeowners Flood Insurance Affordability Act Surcharge and Change in Surcharge.

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FEMA – FMC 16-02 – Failure to Review Policies and Procedures in Various Areas (NFR No. FEMA 16-03)

During testwork of FEMA’s list of policies, directives, and doctrines completed as of June 21, 2016, we noted that 49 of the 272 active policies, directives, and doctrines that FEMA monitored were overdue for review in accordance with FEMA’s review requirements.

Recommendation:

FEMA should:

- Re-emphasize the existing review requirements.
- Continue to issue quarterly forecasts to the Agency’s component organizations highlighting the doctrine, policies, directives and instructions exceeding, or anticipated to exceed, the Agency’s review standards.
- Continue to update Agency leadership regarding the relative health of the inventory, and work with component organizations to anticipate and have plans to update products approaching the Agency’s review standard.

FEMA – FMC 16-03 – Ineffective Controls over Job Position Creation (NFR No. FEMA 16-05)

During our testing of 45 employees with an entrance on duty date in FY 2016, we identified three instances in which the Request for Personnel Action (SF-52) for a reservist position lacked the signatures of the individuals requesting and authorizing the action demonstrating approval of the individual hired for the position.

Recommendation:

FEMA should:

- Communicate to all applicable managers the requirements of hiring practices in the Hiring Guide for Managers.
- Develop policies and procedures to monitor hiring managers’ compliance with the requirements in the Hiring Guide for Managers.

FEMA – FMC 16-04 – Deficiencies Identified in the Web Integrated Financial Management Information System (WebIFMIS) Chart of Accounts (NFR No. FEMA 16-06)

Monitoring controls over the WebIFMIS chart of accounts were not operating effectively. Based on our review of the FEMA FY 2016 WebIFMIS chart of accounts, we noted that one subaccount was mapped incorrectly and was listed as a primary account within WebIFMIS.

Recommendation:

FEMA should adhere to the established monitoring process to review the WebIFMIS chart of accounts on a monthly basis to ensure that they are setup properly and in compliance with the United States Standard General Ledger (USSGL).

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FEMA – FMC 16-05 – Lack of Documentation to Support the Statistical and Financial Variance Analysis (NFR No. FEMA 16-07)

During our testwork over the December 2015 financial versus statistical data variance report, we identified two instances in which there was not sufficient supporting documentation. The lack of supporting documentation indicates a deficiency in monitoring the Write-Your-Own companies' variances that exceed the established thresholds.

Recommendation:

FEMA should monitor its service provider to ensure that they develop and implement a process to review and ensure variances are communicated to the appropriate insurance companies and National Flood Insurance Program Standards Committee, as they are identified during the financial versus statistical data variance report process.

FEMA – FMC 16-06 – Mission Action Plan Deficiencies (NFR No. FEMA 16-10)

During our testwork of FY 2016 Mission Action Plans, we determined that process owners for each Mission Action Plan were not completing milestones in accordance with the agreed upon timelines. We observed four National Flood Insurance Program Mission Action Plan milestones and 28 Grant Mission Action Plan milestones with a due date of June 30, 2016, or prior that were not complete.

Recommendation:

FEMA Office of the Chief Financial Officer should:

- Work with all relevant components to roll all incomplete milestones into FY 2017 Mission Action Plans and Corrective Action Plans.
- Create a detailed Management Action Plan for the completion and tracking of all FEMA Mission Action Plans and Corrective Action Plans. This revised management plan should include milestones to address appropriate staffing, Senior Leadership approval of final plans, monthly reporting to Senior Leadership of plan status, monthly calls with process owners, development of a monthly dashboard, and an escalation plan for plans at risk for delayed or missed milestones.

FEMA – FMC 16-07 – Ineffective Controls Surrounding the Review of External Weekly Bulletins (NFR No. FEMA 16-11)

During our testwork of the weekly external bulletins, we noted that FEMA provided evidence of communication of the draft bulletin to the Strategic Communications Director and the Deputy Director and/or Director of External Affairs, but did not provide evidence that the prescribed individuals reviewed the bulletins for the week of June 7, 2016.

Recommendation:

FEMA should:

- Update the Standard Operating Procedures to capture documentation of the Strategic Communications Director and the Deputy Director and/or Director of External Affairs review and approval.

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- Implement the updated procedures to demonstrate review and approval of external communications.
- Identify a system in which documentation can be found when needed or requested.

FEMA – FMC 16-08 – Deficiencies in Ethics Training Requirements and OGE-450 Filing Requirements (NFR No. FEMA 16-12)

Controls over completion of initial ethics training were not operating effectively. Specifically, we identified the following:

- One instance in which a new hire did not complete the required initial ethics training within 90 days from the time the employee began work and did not receive an extension or waiver.
- One instance in which a public filer received non-verbal annual ethics training without the agency ethics official providing a written determination of this exception for calendar year 2015.

Controls over submission and review of OGE-450 financial disclosure forms were not operating effectively. Specifically, we identified the following:

- One instance in which the filer did not submit their OGE-450 form within the Office of Government Ethics specified timeframe and did not receive an extension.
- One instance in which the ethics official did not complete their review within the Office of Government Ethics specified timeframe.

Recommendation:

FEMA's Office of Chief Counsel should:

- Work with the Office of the Chief Component Human Capital Officer to ensure that all FEMA employees receive mandatory initial ethics training as part of FEMA's Emergency Manager Orientation.
- Ensure that all FEMA Ethics Counselors are aware of and properly implement the written determination requirement for non-verbal ethics training found at 5 Code of Federal Regulations (C.F.R.) § 2638.704(e)(1).
- Develop processes and procedures to track employees' compliance with financial disclosure filing deadlines, extensions, and the timely review of ethics counselors' financial disclosure reports.

FEMA – FMC 16-09 – Employee Performance Appraisal/Review Deficiencies (NFR No. FEMA 16-13)

During our testwork of a sample of 45 calendar year 2015 annual performance appraisals completed in FY 2016 and 2016 quarterly reviews, we identified the following:

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- Seven instances in which the 2015 annual performance appraisal was completed outside of the 30-day period following the end of the performance cycle.
- Six instances in which the 2015 annual performance appraisal did not have the required signature from both a Reviewing Official and a Rating Official.
- One instance in which an employee did not receive an annual performance appraisal for 2015.
- Three instances in which the employees' 2016 quarterly review was completed outside the 30-day period following the end of the performance cycle.
- One instance in which an employee did not receive a first quarter review in 2016.

Recommendation:

FEMA should increase the timeliness of the performance management process by communicating to supervisors their responsibilities to properly document their employees' performance within the prescribed guidelines.

FEMA – FMC 16-10 – Ineffective Controls over the Correction of Invalid Personnel Data Received from the National Finance Center (NFR No. FEMA 16-16)

Controls over the correction of invalid personnel data received from the National Finance Center (NFC) were not operating effectively. Specifically, we identified the following:

- Thirteen instances in which employees remained on the NFC reports for pay periods subsequent to their departure as FEMA employees.
- Eight instances in which an employee's error remained on the subsequent pay period's NFC report.
- Two instances in which FEMA was unable to provide the related personnel action used to resolve the error noted on the NFC report.

Recommendation:

FEMA should:

- Hire a Human Resources Specialist (Quality Reviewer), for the quality review of personnel actions, NFC reports and implementation of internal processing procedures. The agency's Human Resources Division Offices should collaborate to develop a Job Aid identifying standard operating procedures for the routing and quality review of SF-52s to decrease the number of errors ultimately being received from the NFC.
- Develop an Internal Standard Operating Procedure for an internal Human Resource Quality Review process of personnel actions, historical systemic corrections, and the retention of supporting documentation.

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- Continue to improve the quality review process to decrease the number of processing errors and improve the monitoring of error reports.

FEMA – FMC 16-11 – Failure to Reconcile National Flood Insurance Program Financial Data Information in the Preparation of the National Flood Insurance Program Financial Statements (NFR No. FEMA 16-17)

The Federal Insurance and Mitigation Agency division of FEMA did not effectively monitor controls in place at the National Flood Insurance Program to ensure that internal controls were operating effectively. Specifically, we identified the following:

- During testwork of the June 2016 Financial Data Receiving Log, we identified one instance in which a Write-Your-Own company was listed on the financial data summary but was omitted from the Financial Data Receiving Log.
- During our testwork of the June 2016 Reconciliation of the Transaction Record Reporting and Processing (TRRP) preliminary financial statements and Financial Data Summary, we identified a monetary difference in the amount of the recoveries line item between the Financial Data Summary and the TRRP preliminary financial statements, which had not been identified as part of the monitoring process.

Recommendation:

FEMA should:

- Enhance the process for ensuring the accuracy and completeness of the receiving log and financial statements.
- Use the Financial Data Summary generated to provide Write-Your-Own report classification totals to verify the validity of the upload of exhibits to TRRP to ensure there is no difference between the Financial Data Summary and TRRP.

FEMA – FMC 16-12 – Deficiencies Identified in the Web Integrated Financial Management Information System Transaction Codes (NFR No. FEMA 16-20)

Based on our sample of 35 active transaction codes as of June 30, 2016, we identified the following:

- Twelve transaction codes on the WebIFMIS transaction code listing were not compliant with the USSGL.
- Two transaction codes on the WebIFMIS transaction code listing did not contain the corresponding budgetary/proprietary entry as required in accordance with the USSGL.

Recommendation:

FEMA should:

- Revise their policies and procedures to encompass periodic review of existing transaction codes to

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- ensure previously created transaction codes remain compliant with the USSGL.
- Complete the data cleanup effort that began in 2015 to remove transaction codes from the general ledger that are no longer active and those that are not compliant with the USSGL.

FEMA – FMC 16-13 – Ineffective Controls over Intergovernmental Activity Payments (NFR No. FEMA 16-23)

Based on our sample of 30 Intra-Governmental Payment and Collections (IPACs) for the 6 month period ended March 31, 2016, we noted four instances in which the respective program office did not review and approve the IPAC within 90 days of the billing date.

Recommendation:
FEMA should:

- Re-emphasize to personnel and enforce the requirement for adequate review of interagency payment transactions and supporting documentation as specified in FEMA's established policies and procedures. In addition, FEMA should re-emphasize the effectiveness of monitoring the FEMA Finance Center's internal tracking tool of received IPACs to ensure timely review of payments and support.
- Re-evaluate the requirements for all IPAC reviews given the type of interagency transactions paid.

FEMA – FMC 16-14 – Error in Payroll and Benefit Expense and Non-compliance with Human Resources Laws and Regulations (NFR No. FEMA 16-24)

During our testwork of a sample of payments to employees for the period October 1, 2015, through June 30, 2016, we identified one instance in which an employee's pay raise applicable to pay period 01 per the employee's SF-50 was not processed in EmpowHR and was not paid to the employee until pay period 04.

Recommendation:
FEMA should:

- Establish a Quality Control Team to develop a quality review program consisting of required tasks, identification of responsible parties and relevant applicable timelines.
- Implement quality review procedures and checklists to be used for conducting quarterly reviews.
- Correct errors identified by such quality reviews and develop best practices to avoid the reoccurrence of such errors.

FEMA – FMC 16-15 – Ineffective Review over the National Flood Insurance Program's Premium Rating and Receipt Process (NFR No. FEMA 16-29)

Controls over calculating net written premium amounts were not operating effectively in FY 2016. During testwork of written premiums for the period October 1, 2015, through August 31, 2016, we identified one

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instance in which the Community Rating System discount was understated as applied to the policy, resulting in an overstated premium of \$99.12 charged to the insured.

Recommendation:

FEMA should:

- Follow-up with the insurance company to determine that they have implemented the appropriate corrective action to address the exception identified.
- Provide increased oversight to insurance companies participating in the National Flood Insurance Program to ensure they process and review underwriting files in accordance with National Flood Insurance Program guidelines.
- During the Operation Review include specific file review samples for verification by the underwriter that the proper Community Rating System discount is being applied.

FEMA – FMC 16-16 – Improper Design and Implementation of Investment Amortization Reconciliation Procedures (NFR No. FEMA 16-32)

FEMA recorded investment activity in its financial system, WebIFMIS, based on the Federal Investments and Borrowings Branch’s monthly Fed Invest reports. However, FEMA did not perform procedures on those reports as recommended in the Federal Investments and Borrowings Branch Statement on Standards for Attestation Engagements (SSAE) 16 report. FEMA reconciled its recalculated amounts to the Fed Invest reports as the Treasury Financial Manual requires to ensure the accuracy of investment amortization premiums and/or discounts.

Recommendation:

FEMA should establish procedures to recalculate the investment amortization on three randomly selected Treasury Bonds for the National Flood Insurance Program, annually, to support the Federal Investments and Borrowings Branch SSAE 16 agency user control considerations.

FEMA – FMC 16-17 – Untimely Deobligation of Undelivered Orders (NFR No. FEMA 16-33)

Controls to ensure timely deobligation of undelivered order balances were not operating effectively in FY 2016. Specifically, we identified one instance in which the undelivered order balance was determined to be invalid as of June 30, 2016, but was improperly excluded from FEMA’s year end adjustment to write-off invalid undelivered order balances as the contract had expired.

Recommendation:

FEMA should:

- Integrate relevant Procurement Information System for Management (PRISM) attribute data, such as period of performance completion and contract type, into WebIFMIS.
- Develop a recurring standard report extract from the DHS PRISM that provides for contract type and period of performance completion dates at the task order level.

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- Develop internal control procedures to periodically validate contract attributes recorded in the DHS PRISM.

III. FEDERAL LAW ENFORCEMENT TRAINING CENTERS (FLETC)

FLETC – FMC 16-01 – Ineffective Implementation of PRISM to Momentum Reconciliation (NFR No. FLETC 16-01)

FLETC did not fully implement controls to ensure that obligations awarded in the procurement writing system, PRISM, were posted timely in FLETC's financial system of record, Momentum. Specifically, for two months, there were reconciling items identified that were the result of timing differences. However, FLETC did not document the resolution of these items in subsequent months to ensure that they were appropriately resolved. Beginning in April, FLETC implemented a process for documenting the resolution of open items in subsequent months to ensure appropriate resolution.

Recommendation:

FLETC should continue to follow the new control procedures implemented in April 2016 to document the resolution of open items in subsequent months.

FLETC – FMC 16-02 – Lack of Controls over Review and Approval of IPAC Expenses (NFR No. FLETC 16-02)

FLETC did not have controls in place to ensure proper verification of goods and services received from other Federal entities. Specifically, during testwork of a sample of 45 expense transactions, we identified one IPAC expense that did not have the requesting agency (FLETC) verification confirming receipt of the service.

Recommendation:

FLETC should implement a formal verification process to validate the receipt of goods and services ordered under Economy Act provisions and billed through the IPAC system. We further recommend that the receipt verification be completed within a timely manner for processing of a chargeback and recoupment of fund.

FLETC – FMC 16-03 – Improper Allocation of Gross Costs by Major Mission on the Statement of Net Cost and Footnote (NFR No. FLETC 16-04)

During testwork of the Statement of Net Cost allocation, we identified that the planned student weeks used in determining the Statement of Net Cost allocation varied from the actual student weeks during the year, resulting in a major mission misallocation of costs on the Statement of Net Cost and Footnote 23.

Recommendation:

FLETC should implement a formal review and control process to ensure the accuracy and completeness of the inter-entity cost report student-weeks data to be used for the Statement of Net Cost allocation.

IV. UNITED STATES IMMIGRATION AND CUSTOMS ENFORCEMENT (ICE)

ICE – FMC 16-01 – Untimely Deposit of Bond Cash Receipts (NFR No. ICE 16-01)

Controls were not operating effectively to ensure that bond receipts that the Enforcement and Removal field offices received were deposited timely. Specifically, during our testwork of open bonds as of June 30, 2016, we noted that for one sample, the bond was issued and the obligator made the payment on November 30, 2015; however the field office did not make deposit until December 21, 2015.

Recommendation:

ICE should review and update, as necessary, its manual bond procedures and continue to train process owners on the proper handling of bonds.

ICE – FMC 16-02 – Untimely IPAC Expense Approval (NFR No. ICE 16-02)

Controls were not operating effectively to ensure that IPACs were reviewed and posted to the general ledger timely. Specifically, we identified five instances of untimely posting of an IPAC expenditure to the general ledger.

Recommendation:

ICE should explore possible solutions to get improved responses from its programs on IPACs including the review of the current escalation procedures and changes to current processing goals.

ICE – FMC 16-03 – Insufficient Obligation Analysis (NFR No. ICE 16-03)

Controls were not fully effective to ensure that clear and concise documentation was readily available to support the status assigned to obligations on the Obligation Analysis template. Specifically, we identified the following:

- Two contracts had an expired period of performance and no FY 2016 activity that were assigned a Status 1 (i.e., open, valid obligation). However, there was no clear and concise documentation available to support the status included in the Obligation Analysis. This contract was under Defense Contract Audit Agency (DCAA) audit and per the Components Requirement Guide, in this instance, strong supporting documentation was required.
- One contract had an expired period of performance and no FY 2016 activity that was assigned a Status 1. However, the documentation provided indicated that the component did not complete the review of this obligation.
- One contract had an expired period of performance and no FY 2016 activity that was assigned a Status 1. However, the documentation provided indicated a Status of 4 (i.e., obligation ready for closeout). The applicable program office communicated that the contract was ready to be deobligated, but the closeout had not yet been completed.

Recommendation:

ICE should update its standard operating procedures to include specific guidance on proper documentation support for obligations to ensure responses to undelivered order data calls are complete and accurate.

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ICE – FMC 16-04 – Insufficient Payroll Cash Reconciliation (NFR No. ICE 16-04)

Controls were not operating effectively to ensure that payroll differences for all Treasury account fund symbols were identified on the face of the payroll cash reconciliation. Specifically, during our review of the February 2016 payroll cash reconciliation that Financial Operations-Dallas performed for the Management Directorate (MGMT), we noted that one Treasury account fund symbol had payroll activity during the reporting period but was not included on the face of the payroll cash reconciliation.

Recommendation:

ICE should consistently report all Treasury account fund symbols with activity on the payroll cash reconciliation cover page.

ICE – FMC 16-05 – Untimely Performance Reviews (NFR No. ICE 16-07)

Controls were not operating effectively to ensure initial and final Performance Appraisal Forms were reviewed and approved timely.

Recommendation:

ICE should:

- Continue to issue communications, via a broadcast message, outlining the performance appraisal review process to all supervisors and managers at the end of every performance cycle as a reminder of the correct steps in the final rating process.
- Remind each Headquarter Program Office Performance Point of Contact to emphasize the correct final rating process with their respective supervisors and managers during the final rating process.

ICE – FMC 16-06 – Non-Compliance with Financial Disclosure Filing Requirements (NFR No. ICE 16-08)

Controls were not fully effective to ensure all OGE-450 forms were filed and certified timely. Specifically, out of 45 samples, we identified the following:

- Although the reviewing supervisor was copied on the filer submission notices, one form was not certified timely due to a delay in supervisory review. Reminder and past due notifications were not timely sent to the supervisor.
- One employee was identified as a new filer; however, a notification to file was not sent to the employee. Upon further review after the filing due date, it was determined that the filer did not meet the requirements to file.
- One form in which the final certification was not completed timely.

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Recommendation:

The ICE Ethics Office should:

- Continue to commit to provide equal focus to new entrant filers in accordance with its current written procedures.
- Continue to provide reminder and past due notifications to delayed supervisory review in accordance with its current written procedures.

ICE – FMC 16-07 – Insufficient PRISM to Federal Financial Management System (FFMS) Reconciliation (NFR No. ICE 16-09)

ICE did not fully implement controls to ensure that all obligations awarded in ICE's procurement writing system, PRISM, were posted timely to its financial system of record, FFMS. Specifically, we noted that one Title III procurement contract identified as a variance through the reconciliation process did not have evidence of research and resolution.

Recommendation:

ICE Office of Financial Management should update the PRISM to FFMS reconciliation process to ensure validation and resolution of any differences identified.

ICE – FMC 16-08 – Accounts Payable Lookback Analysis (NFR No. ICE 16-10)

The Accounts Payable lookback analysis was not properly designed and operating effectively to assess the historical accuracy of the Accounts Payable accrual. Specifically, we identified the following:

- The percentage variance per the lookback analysis was calculated as (dollar variance/accrual amount). However, we noted that the percentage variance should have been calculated as (dollar variance/actual amount).
- The accrual amount per the lookback analysis for the second quarter did not agree to the accrual amount per the financial statements. We noted a difference of \$340,604.

Recommendation:

ICE should review key controls in the review process for the Accounts Payable lookback analysis, and ensure that additional oversight is included in the management review process.

ICE – FMC 16-09 – Out of Period Expenses (NFR No. ICE 16-11)

Controls were not operating effectively to ensure that operating expenses related to contracts were posted to the general ledger in the appropriate accounting period. Specifically, we identified that expenses incurred for the period of performance of September 15, 2016, through September 14, 2017, were expensed entirely in FY 2016. This resulted in an overstatement of expenses and understatement of prepaid assets at year end.

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Recommendation:

ICE should:

- Develop guidance on how to identify and report on prepaid assets on a periodic basis.
- Provide training to Contracting Officer Representatives and Program Office Point of Contacts on contracts in which payments are required in advance.

V. MANAGEMENT DIRECTORATE (MGMT)

MGMT – FMC 16-01 – Journal Entry Review Process (NFR No. MGMT 16-01)

MGMT did not properly design controls to ensure an appropriate review of journal entries posted by the service provider. Specifically, we identified the following:

- During the review of journal entries, MGMT Financial Operations reviewed the journal entry for reasonableness; however, the specific attributes assessed to determine whether an entry was reasonable were not defined and documented.
- The Journal Voucher Review Checklist questions were not sufficient to identify all high risk entries for review.
- Journal Entries were not reviewed in a timely manner. We noted that MGMT did not review the sample entry reviewed for our test of design until six months after it was recorded by the service provider.

Recommendation:

MGMT should review existing procedures to ensure attributes are clearly defined, review the Journal Voucher Checklist to ensure logical steps are identified, and ensure that the review of journal entries occurs timely.

MGMT – FMC 16-02 – PRISM to FFMS Reconciliation (NFR No. MGMT 16-02)

MGMT did not fully implement controls to ensure that all obligations awarded in PRISM, the procurement system of record, were posted timely as obligations in the financial system of record, FFMS. Specifically, we noted that the reconciliation did not compare all data between the procurement system and the financial system of record as items were inappropriately excluded from the reconciliation.

Recommendation:

MGMT should ensure all reconciling items between FFMS and PRISM are identified and included in the reconciliation process.

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MGMT – FMC 16-03 – Ineffective Obligation Analysis (NFR No. MGMT 16-03)

Controls were not operating effectively to ensure that a sufficient review was performed over undelivered order balances to verify that the appropriate status was assigned during the quarterly undelivered order analysis. Specifically, we noted one contract out of a sample of 46 that had an expired period of performance and no current year activity which was improperly assigned a status 1 when the contract was identified for close-out.

Recommendation:

MGMT should ensure that a sufficient review is performed on undelivered order balances to verify that the appropriate status is assigned during the quarterly undelivered order analysis.

MGMT – FMC 16-04 – Untimely Contract Expense Approval and Improper Invoice Posting (NFR No. MGMT 16-04)

Controls were not operating effectively to ensure that expense transactions were appropriately reviewed and recorded to the general ledger in a timely manner. Specifically, we identified the following:

- Three instances in our sample of 40 invoices selected for control testwork in which the recording of the receiving ticket and expense within the general ledger was not timely (greater than 30 days).
- One instance in our sample of nine invoices selected for substantive testwork in which the entire invoice was expensed during FY 2016; however the period of performance spanned FYs 2016 and 2017. A portion of the expense should have been recorded as a prepaid asset.

Recommendation:

MGMT should:

- Ensure that expense transactions are appropriately reviewed and recorded to the general ledger timely.
- Ensure that prepaid expenses are properly recorded as prepaid assets.

MGMT – FMC 16-05 – Untimely IPAC Expense Approval (NFR No. MGMT 16-05)

Controls were not operating effectively to ensure that IPACs were reviewed and posted to the general ledger within 30 days. Specifically, we identified nine instances in our sample of 40 IPACs where IPAC expenditures were not posted to the general ledger timely.

Controls were not operating effectively to ensure adequate funding existed to cover the posting of an expense related to an IPAC. Specifically, we noted one instance in which the IPAC amount exceeded the amount obligated in the general ledger. The IPAC was recorded in the general ledger which resulted in an automatic upward adjustment to the obligation.

Recommendation:

MGMT should ensure IPACs are reviewed and posted to the general ledger timely, and that there is adequate funding to cover the posting of IPAC-related expenses.

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VI. NATIONAL PROTECTION AND PROGRAMS DIRECTORATE (NPPD)

NPPD – FMC 16-01 – Revenue Accrual (NFR No. NPPD 16-01)

NPPD’s revenue accrual methodology did not take into account base contracts that have not undergone quality assurance review by the end of the reporting period. Specifically, we reviewed the February 2016 revenue accrual and noted it did not include four agreements that had not undergone quality assurance review.

Recommendation:

The Federal Protective Service and ICE should implement a system change in the financial system of record that allows them to rely on reports from the financial system of record for the quality assurance flag. This change, in conjunction with the Federal Protective Service’s allocation practices, should strengthen controls to prevent the obligation of funds prior to the document being picked up in the revenue accrual process and prevent the condition as noted above from occurring in the future.

NPPD – FMC 16-02 – Approval of Personnel Actions (NFR No. NPPD 16-02)

NPPD lacked approved policies and procedures to document the supervisory review performed to verify that employee data processed for personnel actions was accurately entered into EmpowHR system prior to submission to the NFC. Furthermore, the NPPD instance of NFC’s EmpowHR system did not have the functionality to electronically document this review within the system.

Recommendation:

NPPD should work with the NFC and others as needed to draft policies and procedures relating to supervisory review of personnel actions, including electronic reviews.

NPPD – FMC 16-03 – FFMS to PRISM Reconciliation (NFR No. NPPD 16-03)

NPPD did not fully implement controls to ensure that contracts awarded in PRISM, the procurement system of record, were posted timely as obligations in the financial system of record, FFMS. During the FY 2015 audit, we noted there were unreconciled items that we were unable to determine the action taken or if the items were reconciled during the reconciliation process based on the information included in the final reconciliation. We noted the prior year condition was not remediated in FY 2016.

Recommendation:

NPPD should perform a reconciliation between the procurement system and the financial system of record on a consistent, recurring basis to ensure that all contract awards made within the procurement system are captured in the financial system in a complete and accurate manner.

NPPD – FMC 16-04 – Journal Entry Review Process (NFR No. NPPD 16-04)

During the FY 2015 financial statement audit, we identified that controls were not appropriately designed to ensure completeness of the journal entry population prior to the application of the journal entry review sampling methodology. As a result of ongoing refinements to its internal remediation process, NPPD did

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not complete remediation activities over the prior year deficiency during FY 2016. Consequently, we were unable to test the journal entry review process in FY 2016.

Recommendation:

NPPD should review current policies and procedures and work with its service provider to obtain an understanding of their review and risk areas to develop and improve on NPPD's control activities related to the review of journal entries.

NPPD – FMC 16-05 – Time and Attendance Approval (NFR No. NPPD 16-05)

NPPD employees and supervisors did not consistently follow its policies and procedures related to the time sheet approval process. We tested 40 time sheet samples and identified the following:

- Fourteen instances in which overtime and compensatory time earned were not approved timely, and documentation evidencing approval was not appropriately maintained.
- One instance in which the supervisor reviewed and approved the timesheet prior to the end of the pay period, and hours were recorded subsequent to the supervisor review.

Recommendation:

NPPD should reinforce existing policies and procedures relating to time sheet approval.

NPPD – FMC 16-06 – Internal Control Board Meetings (NFR No. NPPD 16-07)

The Internal Control Board (ICB) meetings were not fully effective in the facilitation of remediation activities. Specifically, we noted the control deficiencies identified throughout the processes at NPPD were communicated and discussed at ICB board meetings; however, there was no evidence of oversight and action items related to remediation.

Recommendation:

The NPPD ICB, and supporting Internal Control Advisory Board (ICAB), should revisit the charter, to include membership, to ensure that the appropriate personnel are representing their component to allow remediation efforts to occur in a timely manner across the Directorate. Leadership must empower NPPD advisors to speak on behalf of their components and be knowledgeable to provide feasible and productive plans of action. The ICB should vote on the proposed solutions from the ICAB and support the solutions through the removal of obstacles or hindrance of proposed actions.

NPPD – FMC 16-07 – Organizational Structure (NFR No. NPPD 16-08)

NPPD is a decentralized organization with various subcomponents that make-up the overall organization. The subcomponents act separately from one another and have their own controls and processes in place which present inconsistencies across the organization.

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Recommendation:

NPPD should:

- Evaluate across the inventory of standard operating procedures and identify where discrepancies in procedures exist.
- Establish a singular process for transactions despite operating in three varying instances of the financial management system.
- Explore establishing a group to perform ongoing evaluations of the standard operating procedures and move towards drafting a singular process across the Directorate.

NPPD – FMC 16-08 – Contract Expense Approval (NFR No. NPPD 16-10)

Controls were not operating effectively to ensure that the Contracting Officer reviews and approves invoices prior to the expense being recorded into the general ledger. Specifically, we identified two instances in which there was no evidence of Contracting Officer approval.

Controls were not operating effectively to ensure that expense transactions were recorded in the general ledger timely. Specifically, we noted the following:

- One out of 40 instances in which the Contracting Officer approval of the invoice was untimely.
- One out of 40 instances in which there was a delay between the date the Contracting Officer approved the invoice and the date the general ledger receiving ticket was completed.

Recommendation:

NPPD should:

- Ensure that Contracting Officers are aware of the requirements for processing invoice payments and rejections.
- Emphasize the requirements, as they pertain to both policy (document retention) as well as timeliness of processing transactions.

NPPD – FMC 16-09 – IPAC Expense Approval (NFR No. NPPD 16-11)

Controls were not operating effectively to ensure that the appropriate obligating documentation was used related to a service provided by the General Services Administration. Specifically, we noted one out of 40 instances in which the incorrect documentation was used as the obligating document for a service related to the General Services Administration.

Controls were not operating effectively to ensure that IPAC expense transactions were recorded in the general ledger timely. Specifically, we noted five out of 40 instances in which the Contracting Officer Representative's approval was untimely.

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Controls were not operating effectively to ensure that funding was available at the time services were performed and at the IPAC accomplished date. As a result, the expenses were not recorded in the general ledger until a future period. Specifically, we noted the following:

- Two out of 40 instances in which the expense was incurred in FY 2015; however, the expense was not recorded until FY 2016, which resulted in an out of period expense.
- One out of 40 instances in which the expense was incurred in February 2016; however, the expense was not recorded until June 2016.

Management was unable to provide complete supporting documentation related to four out of 40 instances.

Recommendation:

NPPD should revisit its processing procedures, including appropriate roles and responsibilities and documentation requirements, to appropriately design and implement internal controls and guidance for the vast number of Contracting Officer Representatives and Technical Points of Contact.

NPPD – FMC 16-10 – Untimely Federal Protective Service Recurring Security Work Authorization Setup within General Ledger (NFR No. NPPD 16-12)

Controls were not operating effectively to ensure recurring Security Work Authorizations were setup in the general ledger timely. Specifically, we noted five out of 45 instances in which the Federal Protective Service did not send the finalized Security Work Authorization to Financial Operations-Burlington timely and as a result the quality assessment process was delayed.

Recommendation:

NPPD's Federal Protective Service should:

- Enhance its existing process to monitor the timeliness of general ledger entries relating to Security Work Authorizations.
- Create a process to work with its regional and headquarter staff to provide additional oversight on Security Work Authorization processing at the servicing finance center.
- Follow up on a monthly basis with both regions and the financial service providers on all Security Work Authorizations.
- Review its existing processes to determine additional areas for improvement to strengthen internal controls.

NPPD – FMC 16-11 – Performance Assessments (NFR No. NPPD 16-14)

Controls were not appropriately implemented to ensure the performance review process functioned as designed. Specifically, during our inspection of documentation for the employee review process we identified the following:

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- Management was unable to provide documentation related to the following:
 - Three out of 45 instances in which the performance work plan was not provided.
 - Sixteen out of 45 instances in which the first quarter review was not provided.
 - Ten out of 45 instances in which the mid-year review was not provided.
 - Fourteen out of 45 instances in which the third quarter review was not provided.
- Nineteen out of 45 instances in which the performance work plan was not completed and signed timely (within 30 days of September 30th).
- Three out of 45 instances in which the first quarter review was not completed and signed timely (within 30 days of January 4th).
- One out of 45 instances in which the performance plan was completed and signed; however, there was no evidence of the date the plan was signed.

Recommendation:

NPPD should implement electronic performance management capabilities which allow for case tracking and workflow to streamline performance management functions.

NPPD – FMC 16-12 – ELC-Position Descriptions (NFR No. NPPD 16-16)

Controls were not appropriately implemented to ensure that the occurrence of the position description review process was appropriately evidenced. Specifically, we noted the following:

- 23 out of 45 instances in which the manager who initiated the position description did not sign-off on the Office of Personnel Management (OPM) Position Description form (Optional Form (OF)-8).
- One out of 45 instances in which the Human Capital specialist who reviewed the position description did not sign-off on the OF-8.
- Four out of 45 instances in which management was unable to provide the documentation used to verify the position description factors.
- One out of 45 instances in which management was unable to provide the position description reviewed.

Recommendation:

NPPD should adapt a workflow to ensure completion of the OF-8 and adherence to OPM and DHS classification policies and practices.

NPPD – FMC 16-13 – Accounts Payable Lookback Analysis (NFR No. NPPD 16-17)

Controls were not designed appropriately to ensure the accounts payable lookback analysis appropriately assessed the historical accuracy of the accounts payable accrual. Specifically, we noted the percentage variance per the lookback analysis was calculated as (dollar variance / accrual amount); however, we noted that the percentage variance should have been calculated as (dollar variance / actual amount).

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Recommendation:

NPPD should work, in conjunction with its service provider, to ensure the proper levels of oversight exist over the lookback analysis.

NPPD – FMC 16-14 – Accounting for Continuous Diagnostics and Mitigation Program Costs (NFR No. NPPD 16-18)

Controls were not designed and implemented to ensure proper tracking of which agencies (either intra-DHS or inter-departmental) assets were procured on behalf of. Additionally, controls were not designed and implemented to ensure that those agencies were notified timely. We noted a delay between when NPPD procured and expensed the equipment/software in development and the notification of imputed costs to the receiving agency. Specifically, out of a sample of ten transactions, we noted two instances where NPPD was unable to identify agencies for which it procured an item. For one of these samples, NPPD expensed the item on April 28, 2015 and the other sample on May 5, 2016, but the receiving agencies have not yet been notified of their portion of the expense.

Recommendation:

NPPD should:

- Design an internal process and communication plan with the General Services Administration to better track the hardware and software purchased with NPPD appropriations for other federal entities.
- Recognize the appropriate classification and the timeliness of the transactions to accurately reflect the transactions in the financial statements.

VII. OFFICE OF FINANCIAL MANAGEMENT (OFM)

OFM – FMC 16-01 – Ineffective Controls over Review of Financial Disclosure Forms (NFR No. OFM 16-01)

Controls over the submission and review of OGE-278 and OGE-450 forms were not operating effectively. Specifically, during our testwork over filings, we noted:

- For 23 of the 25 OGE-278 samples tested, the final review/certification was untimely.
- For 37 of the 45 OGE-450 samples tested, the final review/certification was untimely.
- During testwork over financial disclosure forms at seven components, we identified findings related to financial disclosure processes at seven components (USCG, FEMA, CBP, TSA, ICE, USCIS, and USSS). These findings included untimely submission and review.

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Recommendation:

The Ethics Office will continue to improve staffing and streamline its processes and procedures to ensure that all review and certifications occur within the timelines established by OGE.

OFM – FMC 16-02 – Ineffective Controls over Designation of Intra-Governmental Transactions as Non-Acquisition (NFR No. OFM 16-02)

Controls over non-acquisition intra-governmental transactions were not operating effectively. Specifically, at TSA, we noted two reimbursable agreements (one related to rent with the General Services Administration and one related to the DHS Working Capital Fund) that were approved by the Budget Director in lieu of a Contracting Officer; however, the documentation designating these transactions as non-acquisition in nature was unavailable.

Recommendation:

DHS should update its financial management policies, to include specific guidance about documentation form and retention that components must maintain for all non-acquisition transactions.

OFM – FMC 16-03 – Intra-departmental Reconciliation of Unfilled Customer Order and Undelivered Order Balances (NFR No. OFM 16-04)

Controls were not operating effectively to ensure all DHS components reported complete and accurate intra-departmental unfilled customer orders and undelivered order balances timely to assist with MGMT's reconciliation and resolution of reconciling differences.

Recommendation:

OFM should continue to work with MGMT and components to ensure timely and accurate submission of documentation for the reconciliation.

OFM – FMC 16-04 – Inadequate Review of the Closing Package Notes, Including the Lines Loaded Report (NFR No. OFM 16-05)

DHS did not establish sufficient internal controls to ensure that the amounts presented in the closing package notes, including the Lines Loaded Report were accurately presented, per the instructions contained in *Treasury Financial Manual (TFM) Chapter 4700*. Specifically, we noted the following:

- Inaccurate presentation of GF006 Footnote 3, Accounts and Taxes Receivable, Net
- Inaccurate presentation of GF006 Footnote 6, Property, Plant, and Equipment (PP&E)
- Inaccurate presentation of GF006 Footnote 19, Collections and Refunds of Non-exchange Revenue
- Inaccurate and incomplete presentation of the Governmentwide Treasury Account Symbol Adjusted Trial Balance System Closing Package Lines Loaded Report

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Recommendation:

OFM should improve controls over financial reporting for the closing package financial statements to ensure that accompanying notes are accurately prepared in accordance with the instructions contained in *TFM Chapter 4700*.

VIII. SCIENCE & TECHNOLOGY DIRECTORATE (S&T)

S&T– FMC 16-01 – Journal Entry Review Process (NFR No. S&T 16-01)

S&T did not design and implement controls to effectively monitor the work its service provider performed related to Financial Reporting. Specifically, with the exception of journal entries related to property, journal entries posted by the service provider were not reviewed after posting to ensure accurate recording to the general ledger.

Recommendation:

S&T should:

- Continue to receive a detailed listing of all journal vouchers ICE Office of Financial Management performs on behalf of S&T.
- Continue to review and approve general journal entries related to property and elimination reconciliations over the determined materiality thresholds.
- Document its completion and review of the general journal checklist prior to the CFO monthly certification.

S&T– FMC 16-02 – PRISM to FFMS Reconciliation (NFR No. S&T 16-02)

Controls were not fully implemented to ensure that obligations awarded in PRISM, the procurement system of record, were posted timely to the financial system of record, FFMS. Specifically, we noted that there were unreconciled items that we were unable to determine the action taken on the specific awards items or if the awards items were reconciled during the reconciliation process based on the information included in the final reconciliation.

Recommendation:

S&T should:

- Work to further simplify the process for independent review purposes.
- Notate the status for all documents so all stakeholders can follow the process.

S&T– FMC 16-03 – Untimely IPAC Expense Approval and Review (NFR No. S&T 16-04)

S&T did not fully implement controls to ensure its Contracting Officer Representatives (CORs) timely complete post review of IPACs. Per the S&T IPAC Processing Finance Budget Division Financial

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Manual, IPACs not reviewed and approved by the COR within 30 days are automatically moved to a “complete” status. In our sample of 40 invoices we noted 17 instances where no post payment review was performed within the 30 day timeframe.

Recommendation:

S&T should continue periodic follow-up on all outstanding IPAC post certifications until feedback is received from the COR or Department head responsible for the project.

IX. TRANSPORTATION SECURITY ADMINISTRATION (TSA)

TSA – FMC 16-01 – Ineffective Design of Communication of Relevant Accounting Literature and Ineffective Operating Effectiveness of Employee Performance Assessment Reviews (NFR No. TSA 16-01)

Controls over the communication and distribution of accounting literature updates were not designed effectively to ensure all Branch Chiefs receive the Flash Notice update emails. Specifically, during our testing of the design and implementation, we noted three Branch Chiefs were omitted from Flash Notice 16-011 sent on December 18, 2015.

Controls over the review and approval of employee performance plan and appraisal forms were not operating effectively. Specifically, during our testwork over 15 performance plans and appraisal samples, we noted one instance in which the Financial Policy and Travel Branch Chief was designated as both the Rating and Reviewing Official for a Travel Services Section employee.

Recommendation:

TSA should:

- Establish policies and procedures to verify that all accounting policies and literature updates are distributed to all appropriate individuals.
- Review all performance plans at the start of the rating cycle to ensure that the correct rating and reviewing officials are listed for each employee’s plan.

TSA – FMC 16-02 – Insufficient Quality Review of Personnel Actions (NFR No. TSA 16-02)

Controls over the review of completed personnel actions were not operating effectively. Specifically, we noted that for two of five pay periods selected for testing, Lockheed Martin did not receive sample size approval from TSA prior to performing the review.

Recommendation:

TSA should take measures to improve its monitoring of the service provider’s quality assurance process in a consistent and documented method to confirm it is operating effectively.

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TSA – FMC 16-03 – Ineffective Controls over Invoice Three-Way Match (NFR No. TSA 16-03)

Controls over the invoice three-way match were not operating effectively. Specifically, during our testwork over 14 samples, we noted one instance in which the amount invoiced did not match the amount due per the obligating document. As a result, TSA overpaid \$16.22 for 12 months, summing to an overpayment of \$194.64.

Recommendation:

TSA should implement additional procedures to ensure that invoice amounts and other relevant data are matched appropriately to supporting documentation prior to payment.

TSA – FMC 16-04 – Ineffective Design of Controls over the Review and Approval of Direct and Material Laws and Regulations (NFR No. TSA 16-04)

Controls over the review and approval of the direct and material laws and regulations listing were not designed effectively. Specifically, we noted that the Audit Policy Branch made updates to the listing subsequent to the Office of Chief Counsel review and approval. The Office of Chief Counsel did not review and approve the subsequent changes prior to submission to the Department. Additionally, the Audit Policy Branch did not include the Department’s edits to the listing in the TSA submission.

Recommendation:

TSA should design and implement procedures to ensure the completeness and accuracy of the direct and material laws and regulations listing, prior to submission to the Department.

TSA – FMC 16-05 – Ineffective Controls over Depreciation of Transportation Security Equipment (NFR No. TSA 16-05)

Controls over the depreciation of transportation security equipment assets were not operating effectively. During our testing of 25 transportation security equipment retirement transactions, we noted that depreciation expense was recorded in the month following the physical retirement of an asset.

Recommendation:

TSA should implement controls to ensure that depreciation expense and accumulated depreciation calculated for asset retirements are accurate.

TSA – FMC 16-06 – Ineffective Controls over Property, Plant & Equipment Retirements (NFR No. TSA 16-06)

Controls over the review and approval of transportation security equipment asset retirements were not operating effectively. Specifically, during our testing of 25 asset retirement transactions, we noted that an asset was removed from the fixed asset module prior to the U.S. Coast Guard Finance Center (FINCEN) property manager’s approval.

Recommendation:

TSA should enforce existing policies and procedures to ensure asset retirements are appropriately approved prior to removal from service.

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TSA – FMC 16-07 – Ineffective Controls over the Review and Approval of the Payment Update Database (NFR No. TSA 16-07)

Controls over the completeness and accuracy of the Payment Update Database were not operating effectively. During our testwork over the June 2016 Payment Update Database, we noted the individual airline detail was not included in the database provided to the Financial Management Division Director and the Revenue Director for review. The Financial Management Director and Director of Revenue then approved the database with missing detail.

Recommendation:

TSA should clarify the policies and procedures over the Payment Update Database to indicate documentation and review requirements for all users of the database.

TSA – FMC 16-08 – Ineffective Controls over the Property Inventory Counts (NFR No. TSA 16-08)

During control testwork over 25 inventory counts, we identified the following:

- One Inventory Certification in which the Accountable Property Officer’s digital signature date was manually altered.
- Four Inventory Certifications in which the Deputy Property Management Official’s digital signature was dated prior to the inventory start date.

During our site visit testing, we identified the following:

- One asset in which the serial number on the asset did not correspond to the serial number listed in the Sunflower Asset Management System.
- Three assets in which the serial number was not legible on the asset tag or the asset was not tagged with a unique barcode.
- One asset in which the asset tag was replaced subsequent to our sample request as the original asset tag was not legible.
- One asset in which the asset was not listed in the Sunflower Asset Management System.
- Two assets in which the asset tag was not attached to the asset.

Recommendation:

TSA should:

- Provide training to Accountable Property Officers and Deputy Property Management Officials to address inventory management and the preparation of inventory certification forms.

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- Develop or update relevant policies and procedures to help provide clarification to Accountable Property Officers and Deputy Property Management Officials on the inventory process.

TSA – FMC 16-09 – Failure to Design and Implement Controls over National Finance Center Payroll and Benefits Calculations (NFR No. TSA 16-09)

TSA does not have controls in place to assess the completeness and accuracy of the NFC’s manual benefit calculations. Specifically, we noted in our testing of payroll and benefits expenses that the NFC did not accurately calculate the Federal Employees Retirement System and Thrift Savings Plan benefits for two employees’ lump sum settlement payments that each spanned multiple fiscal years. The benefits were calculated using FY 2016 rates for the entire settlement when portions of the settlements should have been calculated using prior year rates.

Recommendation:

TSA should implement a quality control process of the NFC manual payments for benefits expenses.

TSA – FMC 16-10 – Ineffective Controls over WebTA and the Time and Attendance Process (NFR No. TSA 16-10)

Controls over the time and attendance process were not operating effectively to ensure that approvals for timesheets, leave and overtime were accurately and properly recorded on a timely basis. Specifically, during testing of 117 payroll transactions, we identified the following:

- Two instances where an error was missed in the initial review and certifying process and was reviewed and certified in a subsequent pay period. As such, we noted the supervisor did not sufficiently review and approve the employee’s timesheet.
- Seven instances where the supervisors did not approve the overtime request prior to the employee working overtime hours.
- Five instances where a supervisor did not approve the leave request prior to the employee taking leave.
- One instance where TSA was not able to provide a leave approval for leave taken on a timesheet that was subsequently certified and paid.
- One instance where the days requested for leave on the approved OPM Form 71 did not match the actual days taken per the employee’s certified timecard.

Recommendation:

TSA should:

- Continue to provide guidance, job aids and refresher training on governing policies for leave and overtime approvals and procedures for the use of WebTA.
- Continue to conduct, communicate, provide training, and emphasize awareness on maintaining effective controls with the payroll user community.

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TSA – FMC 16-11 – Lack of Manual Compensating Controls over the Personnel Action Process (NFR No. TSA 16-11)

Controls over Requests for Personnel Actions were not properly designed and implemented to ensure that the proper personnel submitted and reviewed all personnel action requests within HRAccess. TSA relies solely on electronic submissions and signatures within the HRAccess application to evidence approval of personnel actions prior to the effective date of the action. However, General Information Technology Controls supporting this application were not effective. Due to the risk of inappropriate access to the application, manual compensating controls were necessary to attain assurance that appropriate personnel submitted and approved Requests for Personnel Actions.

Recommendation:

TSA should develop and implement manual compensating controls to restrict the review and approval of personnel actions within the system to appropriate personnel.

TSA – FMC 16-12 – Ineffective Controls Over the Federal Employees' Compensation Act (NFR No. TSA 16-12)

During our testing of TSA's review of the Department of Labor chargeback report, we identified the following:

- One instance where TSA was unable to provide supporting documentation (e.g., employee timecard, Statement of Earnings and Leave, etc.) evidencing that the employee was a Federal Air Marshal Service employee at the time of injury.
- One instance where a claimant incorrectly filled out his/her date of birth on the signed and reviewed CA-1 form, which is a required field per the Department of Labor's CA-1 instructions. The review process did not detect and correct the error.

Recommendation:

TSA should:

- Continue to conduct training sessions with the Workers' Compensation Coordinators to provide focused training on FECA policies over validating the quarterly chargebacks.
- Continue to enforce policies and procedures for compliance with the FECA, including completing quality checks of all CA-1 forms prior to submission to Department of Labor, Office of Workers' Compensation.

TSA – FMC 16-13 – Ineffective Controls over Financial Disclosure Forms (NFR No. TSA 16-13)

Controls over the submission and review of OGE 278 and 450 forms were not operating effectively. Specifically, we identified the following:

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- During testing of OGE-278 filings, we noted one instance where the form was submitted and the ethics official's initial review was not completed timely, within 60 days of submission.
- During our testing of OGE-450 filings, we noted one instance where a filer did not submit the report by the submission deadline. The filer did not receive the notification to file or the subsequent late notices sent out by the Office of Chief Counsel because the office did not have the correct email address on file.

Recommendation:

We recommend:

- TSA implement policies and procedures to ensure that reviewers monitor the status of report submissions and complete the initial reviews within the statutory timeframes.
- The Office of Chief Counsel should continue to work with the Office of Human Capital so that accurate and timely information, including e-mail and other contact information, is provided to the Office of Chief Counsel.

TSA – FMC 16-14 – Ineffective Controls over Accounts Receivable Estimate Review (NFR No. TSA 16-14)

Controls over the review and approval of the accounts receivable estimate were not operating effectively. Specifically, during our testing over the year end accounts receivable estimate, we identified the following:

- To calculate the average passenger fee adjustment factor to be used in the accounts receivable estimate, TSA used an average of passenger fee adjustment factors from August 2014 through August 2016, which was inconsistent with their policy.
- TSA was unable to provide documentation for the methodology used to determine the individual passenger fee adjustment factors to be used for airlines with a variance of \$500K or greater.
- TSA was unable to provide support for the August 2014 and September 2014 passenger fee adjustment factors used in the September 2016 accounts receivable estimate calculation.

Recommendation:

TSA should update their documented policies and procedures to accurately calculate and report the accounts receivable accrual.

TSA – FMC 16-15 – Ineffective Design of Controls over the Review and Approval of Journal Entries (NFR No. TSA 16-15)

Controls over the review and approval of year end journal entries were not designed effectively. Specifically, during our journal entry testwork, we noted one manual journal entry that was not reviewed prior to posting. This journal entry related to year end suspense clearing entries, which do not require review, approval or supporting documentation.

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Recommendation:

TSA should implement or update processes to address the approval requirements of the year end suspense clearing journal entry.

X. UNITED STATES COAST GUARD (USCG)

USCG – FMC 16-01 – Preparation of Financial Audit Manual 2010 Checklist (NFR No. USCG 16-02)

Controls were not operating effectively for FY 2016 to ensure proper preparation of the Government Accountability Office (GAO) Financial Audit Manual (FAM) 2010 Checklist and related identification of non-GAAP policies and procedures. We noted based on current operations and processes, errors in USCG's response to questions on the checklist and inconsistencies in USCG's comments to explain the responses selected. Specifically, we identified:

- USCG selected "N/A" in response to a question related to recording investments at acquisition cost or amortized acquisition cost (less an allowance for losses, if any). However, Bureau of Fiscal Services maintains and administers invested funds for Oil Spill Liability Trust Fund and Sport Fish Recreational Boat Trust Fund investments which USCG includes in their financial statements. Management is required to make relevant financial statement assertions and, as such, has responsibility to monitor service providers. Additionally, USCG has a small amount associated with investments for the Gift Fund which they manage independently. USCG should have indicated "Yes" as the response to this topic.
- USCG answered "Yes" to a question about whether donated operating materials and supplies are valued at their fair value at the time of donation. However, per USCG policies, donated items are valued at historical cost or the current moving-average price. Further, this topic should have been included on the non-GAAP policy in the semi-annual submission to the Department.

Recommendation:

USCG should continue to refine the implementation of the GAO FAM 2010 Checklist and non-GAAP Analysis procedures and ensure the roles and responsibilities are executed properly in the preparation of the GAO FAM 2010 Checklist.

USCG – FMC 16-02 – Civilian and Military Payroll (NFR No. USCG 16-05)

Control procedures over the timesheet review and approval for civilian payroll were not operating effectively. Specifically, we noted:

- Two instances out of 45 samples in which there was improper supervisory review.
- Three instances out of 45 samples in which leave was taken prior to approval.
- One instance out of 45 samples in which timesheet was untimely certified.

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Control procedures over military pay and allowance impacting transactions were not operating effectively. Specifically, we noted three instances out of 18 samples of untimely processing of member changes that impact member's pay and allowances.

Control procedures over the processing of civilian personnel actions were not operating effectively. Specifically, we noted four instances out of 22 samples over personnel action for civilian separations were approved after the effective date.

Controls procedures were not operating effectively to ensure adequate documentation is maintained and readily available to support military personnel action activity. Specifically, we noted:

- Two instances out of 16 samples related to military separations in which documentation to support the approval of the personnel action was not able to be timely provided.
- One instance out of 16 samples related to military separations in which the employee was not timely removed from payroll.
- Seventeen instances out of 24 samples related to military accessions in which documentation to support the approval of the personnel action was not able to be timely provided.
- Two instances out of 24 samples related to military accessions in which the employee was not timely enrolled in payroll.
- Five instances out of 64 samples related to inconsistent payroll data between the member's accession enrollment forms and human resource system.
- Two instances out of 25 samples in which documentation to evidence a member's separation from USCG was not properly maintained.

Policies and control procedures were not fully documented related to military payroll reconciliations such that processes to ensure that identified reconciling items were timely reviewed.

Recommendation:

USCG should continue to enforce and measure implemented policies and procedures as well as execute training and organizational governance improvements to ensure that accurate and timely reviews of employee timesheets are completed, and that military and civilian actions are processed in a timely and accurate manner.

USCG – FMC 16-03 – Operating Materials and Supplies (NFR No. USCG 16-06)

Controls to monitor transactional level activity (i.e., receipts and issuances) in order to support movement of quantity and related valuation of operating materials and supplies (OM&S), as reported in the general ledger, were not fully designed and implemented. Specifically, we noted:

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- USCG was not able to produce full roll forwards of subsidiary ledger data related to current year activity during interim periods.
- USCG's roll forward of subsidiary ledger data at year-end contained immaterial reconciling differences not identified during internal review.
- Adjustments related to OM&S items purchased for on-going construction in progress projects were made through a summary level on-top adjustment, rather than correcting the individual transaction in their respective general ledger accounts.
- USCG did not track activity and ensure proper valuation of non-Inventory Control Points managed OM&S. Electronics spare parts; chemical, biological, radiological, nuclear and explosives material; and ordnance located at various field units and third-party vendor warehouse were maintained in external systems not directly tied to a financial system of record. USCG relied on third party provided values and management for ordnance and a subset of electronics without controls over validation of those values.

Control procedures were not designed and implemented effectively at the Aviation Logistics Center to ensure posting errors for recording issuances and receipts to the general ledger are resolved timely. Specifically, we noted:

- Twelve instances of 30 samples in which the correction of transaction error was not performed timely, specifically prior to the related quarterly inventory physical count.
- Fourteen instances of 30 samples in which no documentation was available to support the fact that transaction error was resolved and posted to a valid receipts/issuance by year end.

Controls were not operating effectively to ensure adequate issuance documentation to support activities were maintained, transactions were accurately reflected in the general ledger, and errors were identified and resolved timely. Specifically, we noted the following:

- At the Aviation Logistics Center, one instance out of 45 samples did not have sufficient documentation to support evidence of issuance activity authorization.
- At the Surface Forces Logistics Center, two instances out of 45 samples did not have sufficient documentation to support evidence of issuance activity authorization.
- At the Surface Forces Logistics Center, one instance out of 45 samples did not have sufficient documentation to support evidence of issuance activity.
- At the Surface Forces Logistics Center, three instances out of 45 samples did not have sufficient documentation to support timely processing of issuance activity.

Controls related to USCG's quarterly OM&S physical inventory procedures were not designed and implemented effectively. Specifically, we noted:

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- USCG did not sufficiently analyze changes in quantity of operating materials and supplies between the date of last physical inventory performed and the year-end reporting date.
- During independent completeness procedures performed, we noted that two National Item Identification Numbers (NIINs) at the Aviation Logistics Center and three NIINs at the Surface Forces Logistics Center were in locations different from the locations listed in the inventory listing.
- During independent test counts performed during summer and year-end site visits to Inventory Control Points and remote stock locations, we identified discrepancies between physical counts and inventory quantities that were not timely identified or timely corrected.

Controls over the review of average repair cost values were not properly designed to ensure the master file utilized in the calculation was complete and accurate: Specifically, we noted:

- Four NIINs in the held for repair population did not have an assigned average repair cost value or appear in the master file.

Control procedures over the manual moving average price recalculation and validation performed at Inventory Control Points were not fully designed, implemented, and operating effectively to ensure that a sufficient sample of NIINs are reviewed and all reviews are supported by sufficient audit documentation. Specifically, we noted that the Surface Forces Logistics Center did not perform any manual moving average price recalculation and validations in the third or fourth quarter.

Recommendation:
USCG should:

- Review and strengthen policies, procedures and controls for inventory and related property. Processes should be fully designed and implemented to provide a population wide quantity roll forward on an interim basis along with associated movement, and a risk based approach to NIINs review and recalculation.
- Continue to pursue the implementation of the new logistics management accounting system to address system issues.

USCG – FMC 16-04 – Fund Balance with Treasury (NFR No. USCG 16-07)

USCG lacked policies and control procedures to ensure that reconciling items identified in the fund balance with Treasury reconciliation process had been evaluated for material financial statement impact prior to submission of financial reporting information to the Department. USCG's fund balance with Treasury account statement reconciliation (cited to support adjustments included in the financial data) was completed subsequent to the submission of that financial data, including those adjustments, to the Department. The March 2016 Government Wide Accounting reconciliation was approved on April 21, 2016; the final March 2016 DHS Treasury Information Executive Repository (DHSTIER) file was submitted to DHS including 'cash' adjustments on April 12, 2016. For the first three quarters of FY 2016, the average monthly total of differences addressed by 'cash' adjustments was \$40 million (excludes differences associated with Treasury warrants and rescissions).

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As a result of the reconciliation process completed subsequent to the USCG's financial reporting to DHS, we noted the following additional issues with explanations and/or resolution of reconciling items:

- Reconciling items associated with one agency location code, for which explanations and support accompanying the reconciliation, did not differentiate between legitimate timing differences and error/exception-type differences precluding a reviewer from assessing the financial statement impact of each category. The differences comprised approximately \$8.5 million of the average \$40 million in recurring reconciling items and adjustments, or 21 percent.
- Military cross-disbursing and similar transactions initiated by other government organizations against USCG funds at Treasury were supported by the Treasury Government Wide Account Statement. The statement provides a level of support for the transactions reported to Treasury by the other agency, but lacks independent verification. Differences associated with military cross-disbursing and other similar transactions averaged \$6 million per month of the average \$40 million, or 15 percent.

Recommendation:

USCG should update the cash reconciliation procedures and the DHSTIER adjustment procedures to ensure that research and evaluation are included as part of the final fund balance with Treasury reconciliation package.

USCG – FMC 16-05 – Environmental and Disposal Liabilities (NFR No. USCG 16-12)

Control procedures related to the management review of the quarterly environmental disposal liability report including controls over the completeness and accuracy of the underlying data were not fully implemented. Specifically, we noted the following related to the data element discrepancies within the asbestos report:

- Two out of 25 instances in which the square footage was incorrect.
- Five out of 25 instances in which assets had a date in service prior to the asset date built.

USCG did not have sufficient documentation to evidence performance of control procedures over the current year review of environmental liability estimates for environmental compliance and restoration as well as review of environmental compliance and restoration projects with a current undelivered order to ensure that applicable adjustments are properly made to the environmental liability estimate associated with those projects.

Policies and control procedures were not been fully implemented for USCG's due care processes. USCG did not have documented policies and control procedures for the development of the Environmental Compliance Evaluation Due Care Site Listing which is used to track all operational USCG sites deemed to pose an environmental risk for which due care assessments are to be performed. Specifically, USCG lacked processes used to ensure that the listing was complete so that all active/operational sites that had significant environmental risks were included for evaluation.

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Recommendation:

USCG should:

- Develop improved procedures and controls to examine the quarterly reports for data errors and inconsistencies.
- Develop and document procedures regarding the review of Environmental Liability Estimates (ELE). Specifically, these procedures should be developed to ensure that applicable adjustments are properly made to the ELE for projects which have a current undelivered order.
- Develop improved procedures and controls to ensure due care assessment is performed and that identification and evaluation of the environmental liabilities population is performed.

USCG – FMC 16-06 –Leases (NFR No. USCG 16-13)

Control procedures were not fully designed, implemented, and operating effectively to ensure that USCG's listing of leases and the presentation of the lease footnote disclosure were complete and accurate. In the current year, remediation efforts continued over validation of the completeness and accuracy of lease information reported in the "in grant" module of the Shore Asset Management system. Specifically we identified:

- Six instances in which the lease terms of an active, non-cancellable lease were incorrectly reported on the third quarter Lease Management Schedule.
- Five instances in which the lease terms of a cancellable lease were incorrectly reported on the third quarter Lease Management Schedule.
- Five instances in which future lease payments were incorrectly reported on the third quarter Lease Management Schedule and Operating Lease Footnote.

Control procedures over the reconciliation of lease scorecards prior to lease execution were not appropriately designed and implemented to ensure leases are properly classified as cancellable or non-cancellable.

Policies and control procedures related to personal property leases, including identification of non-cancellable leases and proper reporting in the footnote, continue to be under remediation through September 30, 2016.

Recommendation:

USCG should:

- Strengthen controls and procedures to ensure that all leased assets are properly identified, classified, and recorded.
- Develop a system to identify, record, and properly classify personal property lease populations to ensure presentation of the lease footnote disclosure is complete and accurate.

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USCG – FMC 16-07 – Heritage Assets and Stewardship Property (NFR No. USCG 16-14)

Policies and control procedures over the review of all potential heritage personal property assets were not fully designed and implemented to ensure that all assets meeting criterion per Statement of Federal Financial Accounting Standard No. 29 were properly classified. As of interim audit testwork, policies and control procedures to document the determination of personal property assets as heritage were not yet disseminated.

Control procedures were not fully designed and implemented over the evaluation of real property heritage asset classification to ensure complete and accurate presentation of the heritage asset footnote. Specifically, we identified two instances out of four samples in which asset records were removed from the footnote due to real property remediation efforts.

Recommendation:

USCG should monitor newly developed procedures to ensure controls are effective and strengthen controls over real property to ensure heritage assets are properly classified in a timely manner and are correctly identified as heritage or multi-use heritage.

USCG – FMC 16-08 – Operating Expense Process (NFR No. USCG 16-16)

Controls over the processing and supporting of IPAC transactions were not designed and implemented to ensure goods and services were received prior to payment. Specifically, we identified:

- USCG relied on vendor-provided information to process IPAC transactions, without verifying propriety of the charge. Accountants determined line of accounting distribution based on information communicated by the vendor on the IPAC transmittal.
- USCG's policy for clearing IPAC related suspense balances instructed accountants to ensure there were sufficient funds available on the document identified by the vendor; and, if sufficient, to 'spread' the charge to the line of accounting without further validation.

USCG lacked designed control procedures to ensure the proper recording of costs of goods sold. Specifically, we noted USCG recorded cutter fuel as inventory rather than operating materials and supplies, and then recorded an expense to cost of goods sold rather than other expenses not requiring budgetary resources.

Recommendation:

USCG should:

- Migrate to a new financial system which requires receipting of goods and services for IPACs and has the ability to record trading partner information. USCG plans to implement a Lean Six Sigma project to review year end suspense transactions after year end close to ensure the transactions are posted timely and to identify any errors which would impact the on-top accrual entry.
- Implement procedures to remove cutter fuel from the supply fund to operating expenses.

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USCG – FMC 16-09 – Accounts Payable Accrual (NFR No. USCG 16-18)

USCG did not sufficiently document the analysis and results associated with the retrospective review of the prior year recorded accounts payable accrual to allow an independent reviewer to assess the ongoing use of the current process to estimate the accounts payable accrual as of September 30, 2016. For the second consecutive year, the recorded estimate fell outside of the statistical range of the extrapolated estimate. A \$39.9 million difference existed between the recorded estimate of \$525.7 million and the point estimate of \$485.8 million. This difference exceeded USCG’s internal accounts payable materiality threshold of \$25.9 million. USCG’s Prior Year Comparison Memo did not include documentation of confirming and disconfirming evidence considered. Without such evidence, USCG’s final determination was inconclusive of true causes for the booked estimate falling outside of the statistical range.

For the estimation of the September 30, 2016 accounts payable accrual, USCG projected monthly expenditures for the six months subsequent to year end and multiplied those monthly projections by rates generated from the prior year lookback test sample. USCG averaged the individual test item rates from the prior year rather than using the monthly rates of accrual demonstrated by the projection. The sample was used to project accrual amounts over the population; therefore the accrual rates should have been projected to mirror the prior year experience at the monthly expenditure level. USCG recorded an estimate of \$498.1 million as of September 30, 2016 using the average monthly accrual rates, whereas the use of monthly accrual rates on a projection basis would have generated an estimate of \$471.8 million; a difference of \$26.3 million.

USCG’s post-stratification calculation contained mathematical formula errors, causing the allocation percentages of certain classifications to be incomplete and inaccurate. The impact was a \$32.1 million overstatement of acquisition, construction, and improvement and a \$32.1 million understatement of operating expenses as of September 30, 2016.

Recommendation:

USCG should:

- Continue to evaluate and validate its prior year comparison memo to ensure supporting documentation used in its accounts payable accrual process is complete and comprehensive.
- Continue to compare and evaluate the usage of extrapolated and average tested accrual rates and their impacts on both the sampling and roll forward estimates.
- Where applicable, implement additional checks and reviews to validate all formulas used for mathematical accuracy.

USCG – FMC 16-10 – Accounts Receivable (NFR No. USCG 16-19)

Controls were not designed and implemented to ensure the proper recording of revenue from goods sold and related accounts receivable. Specifically, we noted USCG recorded cutter fuel as inventory (SGL 1521) rather than OM&S (SGL 1511). As a result, when fuel was consumed, USCG inappropriately recognized revenue from goods sold (SGL 5100) and cost of goods sold (SGL 6500), rather than recording an expense to SGL 6790, other expenses not requiring budgetary resources.

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Controls were not operating effectively to ensure all direct and indirect oil spill-related costs were reviewed prior to the billing of responsible parties. Specifically, we noted:

- One instance out of eight in which the expenditure inquiry report was not signed to evidence review of all costs prior to billing.
- One instance out of eight in which the appropriate indirect rates were not used to calculate personnel and vehicle costs.
- One instance out of eight in which costs were inappropriately included in unbilled accounts receivable.

Recommendation:

USCG should:

- Continue to review its processes surrounding the accounting over supply fund activities.
- Conduct case officer training to reinforce the procedures required by the case management standard operating procedures.

USCG – FMC 16-11 – Financial Disclosure Reports (NFR No. USCG 16-20)

Controls over the confidential financial disclosure report (OGE Form 450) process were not fully effective. Specifically, we noted seventeen instances of 25 samples in which the OGE-450 was not reviewed timely (within 60 days of receipt of the signed form from the filer).

Recommendation:

USCG should send regular reminders of the filing and review deadlines during the disclosure form filing season.

USCG – FMC 16-12 – Statement of Financing (NFR No. USCG 16-22)

Controls over the preparation of the Statement of Financing Manual Footnote, Consolidated Net Cost to Budget Reconciliation, were not properly designed and implemented. Specifically, we noted purchases of capitalized property and inventory were not properly recorded to SGLs 8801, 8802 and 8803. USCG utilized analytical procedures rather than the appropriate transactional level detail to support Line 15, Resources that Finance the Acquisition of Assets.

Recommendation:

USCG should:

- Continue using manual analytical procedures until posting logic functionality is corrected or the new financial system is implemented.
- Review the Expended Obligations to Proprietary Costs and Capitalized Costs analytic to determine if a reconciliation can be implemented to identify the actual current year activity to address this line item of the Net Cost to Budget Reconciliation (Statement of Financing).

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XI. UNITED STATES CITIZENSHIP AND IMMIGRATION SERVICES (USCIS)

USCIS – FMC 16-01 – Deficiencies in Monitoring and Recording Employee Completion of the Annual Ethics and Integrity Training (NFR No. USCIS 16-01)

Controls were not operating effectively to ensure that all employees completed the required annual ethics training. In our sample of 45, USCIS employees required to complete the annual ethics and integrity training course, due on December 31, 2015, we found that USCIS was unable to provide documentation to support that two of the employees had completed the required annual training for calendar year 2015. Additionally, for one of those two employees, USCIS was unable to provide support that the employee completed the training due in the prior year as well.

Recommendation:

USCIS should:

- Enhance its communications and compliance processes to ensure employees understand and comply with agency ethics and integrity training policies.
- Engage Program Offices and Directorates to add necessary emphasis of timely completion of annual ethics and integrity training.

USCIS – FMC 16-02 – Insufficiently Precise Review and Approval of H1-B and L Fraud Fee Journal Entries (NFR No. USCIS 16-02)

Controls were not operating effectively to ensure that journal entries recorded were accurate. In one of six monthly journal entries related to the transfer of H-1B and L Fraud fees selected for testwork, we identified a variance of \$120 between what was recorded in the journal entry and the amount that was requested per the letter to Treasury.

Recommendation:

USCIS should emphasize policies and procedures relating to the review of journal entries in order to correct any identified errors prior to year-end reporting.

USCIS – FMC 16-03 – Deficiencies in the Recording of Property, Plant, and Equipment (NFR No. USCIS 16-03)

Controls were not operating effectively to ensure that the monthly recorded costs were complete and accurate. Specifically, during our review of the property roll forward we identified the following:

- One disposal which was not recorded timely. We noted that the asset was approved for disposal on June 30, 2015 per the decommissioning memo; however, the Accounting and Reporting Branch was not notified of the disposal until the first quarter of FY 2016.
- The development for one project was not recorded timely and costs were not properly capitalized. Cost estimates were not provided for September 2015 even though costs were incurred. During FY 2016,

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USCIS recorded a prior period adjustment to properly record the capitalization of costs related to the project in September 2015.

Recommendation:

We noted that USCIS implemented corrective actions during FY 2016 to mitigate the reoccurrence of the cited conditions. Therefore, no further action is needed.

USCIS – FMC 16-04 – Inaccurate and Unsupported Data in the Adjudication Information Management Systems (CLAIMS 3 and CLAIMS 4) and the Marriage Fraud Amendment System (NFR No. USCIS 16-05)

We conducted testwork over the FY 2016 third quarter list to floor audit and identified the following:

- For 100 of the 795 samples, USCIS was unable to provide a physical application to support the applications' status. We note it is USCIS's policy to treat all unsupported samples as "not pending." As these applications were unsupported, we were unable to conclude whether the status determined by USCIS is appropriate.
- For one of the 795 samples, the fee per the sample did not agree to the fee per the fee schedule, based on the form type and receipt date. USCIS was unable to provide support for the fee per the sample.
- Forty two of the 795 samples were listed as pending in the application tracking system, however, we determined that these samples were not pending based on review of the physical application. Of these samples, USCIS also identified the 42 samples to be not pending. This indicates that the information in the application tracking systems [CLAIMS 3, CLAIMS 4, and the Marriage Fraud Amendment System] was not reliable for financial reporting purposes and that there were deficiencies in the internal controls that govern the information in these systems, resulting in the need for the deferred revenue estimation methodology.

Recommendation:

USCIS should:

- Continue to ensure appropriate staff members are trained regarding the requirements of the quarterly review to ensure that the estimation process is complete and accurate.
- Continue to increase the number and type of applications required to be processed through the Electronic Immigration System and ensure the application allows for the direct reporting of deferred revenue. The controls over the application status should eventually allow USCIS to retire their legacy tracking systems and replace their current estimation process.
- Consider performing alternative procedures on the missing applications in order to reduce the number of unsupported samples.

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XII. UNITED STATES SECRET SERVICE (USSS)

USSS – FMC 16-01 – Ineffective Control Over SF-132 to the SF-133 Reconciliation (NFR No. USSS 16-01)

During testwork over the SF-132 to SF-133 reconciliation for FY 2016 Period 6 (March 31, 2016), we noted a mathematical error in the reconciliation for one Treasury account fund symbol: the amount of anticipated recoveries of prior-year unpaid and paid obligations (line 1041) was not added to the unobligated balance brought forward, October 1 (line 1000), resulting in an incorrect total for line 1050, unobligated balance, total.

Recommendation:
USSS should:

- Check formulas prior to completing the SF-132 to SF-133 reconciliation worksheet.
- Complete a second review before submitting the completed reconciliation worksheet to include, a second review of the math and formulas prior to submitting the completed reconciliation worksheet.

USSS – FMC 16-02 – Ineffective Controls over Time and Attendance Approval (NFR No. USSS 16-02)

During testwork over the time and attendance process, we noted two of 45 employees used accrued annual leave prior to supervisory approval. Additionally, we noted timecards for three of the 45 employees were certified subsequent to the Tuesday following the close of the pay period.

Recommendation:
USSS should revise policies to contain directions to managers on how to address verbal approval given prior to the employee taking leave.

USSS – FMC 16-03 – Untimely Invoice Entry and Disbursements (NFR No. USSS 16-04)

Based on our testwork performed over a sample of vendor payments made during FY 2016, we identified that USSS did not enter nor remit timely payment for three out of 41 invoice approval samples tested. Six pension invoices from the DC Pension Plan were received and not paid within thirty days of receipt of the invoice. These invoices also did not accrue or remit Prompt Payment Act interest to the public vendor.

Recommendation:
USSS should review the process by which these are paid and create a new standard operating procedure to ensure they are paid in a timely manner in the future.

USSS – FMC 16-04 – Deficiencies in the Public and Confidential Financial Disclosure Reporting Process (NFR No. USSS 16-05)

During testwork over a sample of 45 employees required to file an OGE-450, confidential financial disclosure report, we identified the following:

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- Three covered employees did not file the OGE-450 within the 30 day deadline or within the granted extension timeframe.
- One covered employee's OGE-450 form was not complete and the documentation was not maintained for the submission.

Recommendation:

USSS should continue to enforce employee compliance with OGE-450 filing requirements.

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Component	NFR No.	Description	Disposition ¹			FMC No.
			IAR			
			MW	SD	NC	
CBP	16-01	Inadequate Implementation of Quarterly Analysis of Open Obligations	B			
	16-01 (a)	Ineffective Review and Deobligation of Undelivered Orders				
CBP	16-02	Ineffective Controls over the Review of Entry Exception and Error Reports		F		
CBP	16-03	Insufficient Retention Period for Documents that Support Drawback Claims		F		
CBP	16-04	Lack of Heritage Asset Collections Monitoring Controls				16-01
CBP	16-05	Inadequate Controls over Settlement of Assets				16-02
CBP	16-06	Ineffective Controls over the SF 132/133 Reconciliation	B			
CBP	16-07	Control Deficiencies over Entity Level Controls	B			
CBP	16-08	Management Oversight of Property, Plant and Equipment				16-03
CBP	16-09	Inadequate Controls over Subsequent Disbursements Invoice Classification	B			
CBP	16-10	Lack of Controls to Detect Excessive Drawback Claims		F		
CBP	16-11	Lack of Controls to Determine Sufficiency of Drawback Continuous Bonds for Claimants Qualified for Accelerated Payments		F		
CBP	16-12	Ineffective Controls over the Review of Bond Sufficiency		F		
CBP	16-13	Lack of Controls over Complementary User Entity Controls	B			
CBP	16-14	Lack of Documentation to support Accelerated Filer Status		F		
CBP	16-15	Ineffective Controls over the Review of Federal Employees' Compensation Act Quarterly Chargeback Reports				16-04
CBP	16-16	Ineffective Controls over Review of Federal Employees' Compensation Act Claim Forms				16-05
CBP	16-17	Failure to Establish and Communicate the Control Environment during the Automated Commercial System to Automated Commercial Environment Transition		F		

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Component	NFR No.	Description	Disposition ¹			FMC No.
			IAR			
			MW	SD	NC	
CBP	16-18	Deficiencies in the Public and Confidential Financial Disclosure Reporting Process				16-06
CBP	16-19	Non-Compliance with the Federal Financial Management Improvement Act			J	
CBP	16-20	Lack of Controls over Payroll Service Provider's Implementation of the Border Patrol Agent Pay Reform Act				16-07
CBP	16-21	Ineffective Controls over the Legal Contingent Liability Management Schedule				16-08
CBP	16-22	Identification of Non-U.S. Generally Accepted Accounting Principles Policies				16-09
CBP	16-23	Ineffective Controls over the Preparation and Review of Adjusting Journal Entries	B			
CBP	16-24	Improper Recording of Fines, Penalties, and Forfeiture Receivable		F		
CBP	16-25	Ineffective Controls in the Seized and Forfeited Property Inventory Process				16-10
CBP	16-26	Ineffective Controls over the Timely Review of Liabilities for Deposit Accounts		F		
CBP	16-27	Ineffective or Improper Application of Controls over the Statement of Budgetary Resources	B			
CBP	16-28	Ineffective Design of Controls in the Year-End Financial Reporting Process	B			
CBP	16-29	Ineffective Controls over the Taxes Duties and Trade Receivables Allowance				16-11
CBP	16-30	Ineffective Controls over the Seized and Forfeited Property Footnote	B			
CBP	16-31	Ineffective Controls over the Reporting of Prior Period Adjustments				16-12
CBP	16-32	Lack of Supporting Documentation for Excise Tax Collections				16-13
CBP	16-33	Ineffective Control over the Timely Update of Harmonized Tariff Schedule Codes		F		
FEMA	16-01	Ineffective Monitoring of Controls at the National Flood Insurance Program Service Provider				16-01

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Component	NFR No.	Description	Disposition ¹			FMC No.
			IAR			
			MW	SD	NC	
FEMA	16-02	Lack of Manual Compensating Controls surrounding the Authorization/Approval of Personnel Actions and Approval of Time and Attendance	B			
FEMA	16-03	Failure to Review Policies and Procedures in Various Areas				16-02
FEMA	16-04	Lack of Oversight by the National Flood Insurance Program Standards Committee	B	D		
FEMA	16-05	Ineffective Controls over Job Position Creation				16-03
FEMA	16-06	Deficiencies Identified in the Web Integrated Financial Management Information System Chart of Accounts				16-04
FEMA	16-07	Lack of Documentation to Support the Statistical and Financial Variance Analysis				16-05
FEMA	16-08	Ineffective Controls over Grant Obligations and Deobligations	B			
FEMA	16-09	Ineffective Controls over the Issuances of Grantee Post-Monitoring Letters		E		
FEMA	16-10	Mission Action Plan Deficiencies				16-06
FEMA	16-11	Ineffective Controls Surrounding the Review of External Weekly Bulletins				16-07
FEMA	16-12	Deficiencies in Ethics Training Requirements and OGE-450 Filing Requirements				16-08
FEMA	16-13	Employee Performance Appraisal/Review Deficiencies				16-09
FEMA	16-14	Ineffective Controls over Mission Assignment Activity	B			
FEMA	16-15	Ineffective Controls over Procurement Activity	B			
FEMA	16-16	Ineffective Controls over the Correction of Invalid Personnel Data Received from the National Finance Center				16-10
FEMA	16-17	Failure to Reconcile National Flood Insurance Provider Financial Data Information in the Preparation of the National Flood Insurance Program Financial Statements				16-11
FEMA	16-18	Ineffective Controls Over Travel Activity	B			
FEMA	16-19	Ineffective Review over National Flood Insurance Program's Claim Payments Process	B			

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Component	NFR No.	Description	Disposition ¹			FMC No.
			IAR			
			MW	SD	NC	
FEMA	16-20	Deficiencies Identified in the Web Integrated Financial Management Information System Transaction Codes				16-12
FEMA	16-21	Ineffective Controls over the Quarterly Cash Analysis		E		
FEMA	16-22	Control Deficiencies over Management of Assistance to Firefighters, Staffing for Adequate Fire & Emergency Response, and Fire Prevention & Safety Grant Programs	B			
FEMA	16-23	Ineffective Controls over Intergovernmental Activity Payments				16-13
FEMA	16-24	Error in Payroll and Benefit Expense and Non-compliance with Human Resources Laws and Regulations				16-14
FEMA	16-25	Ineffective Controls over Procurement Contract Management	B			
FEMA	16-26	Ineffective Utilization of the Results of Federal Insurance and Mitigation Administration Operational Reviews	B			
FEMA	16-27	Ineffective Controls over Monitoring Grantees' Compliance with Single Audit Act		E		
FEMA	16-28	Deficiencies Identified over Claims' Case Reserves at WYO Companies Participating in FEMA's National Flood Insurance Program	B			
FEMA	16-29	Ineffective Review over National Flood Insurance Program's Premium Rating and Receipt Process				16-15
FEMA	16-30	Ineffective Controls over the Tracking of Grants for Closeout	B	E		
FEMA	16-31	Lack of Centralized Oversight over Grants Management Process		D, E		
FEMA	16-32	Improper Design and Implementation of Investment Amortization Reconciliation Procedures				16-16
FEMA	16-33	Untimely Deobligation of Undelivered Orders				16-17
FEMA	16-34	Non-Compliance with the Federal Financial Management Improvement Act			J	

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Component	NFR No.	Description	Disposition ¹			FMC No.
			IAR			
			MW	SD	NC	
FLETC	16-01	Ineffective Implementation of Procurement Information System for Management to Momentum Reconciliation				16-01
FLETC	16-02	Lack of Controls over Review and Approval of Intra-governmental Payment and Collection Expenses				16-02
FLETC	16-03	Lack of Controls over Complementary User Entity Controls	B			
FLETC	16-04	Improper Allocation of Gross Costs by Major Mission on the Statement of Net Cost and Footnote				16-03
FLETC	16-05	Unapportioned/Apportioned Classification	B			
ICE	16-01	Untimely Deposit of Bond Cash Receipts				16-01
ICE	16-02	Untimely Intra-governmental Payment and Collection Expense Approval				16-02
ICE	16-03	Insufficient Obligation Analysis				16-03
ICE	16-04	Insufficient Payroll Cash Reconciliation				16-04
ICE	16-05	Impact of General Information Technology Control Failures on Application Controls and System Generated Information Produced by the Entity	B			
ICE	16-06	Ineffective Funds Management	B			
ICE	16-07	Untimely Performance Reviews				16-05
ICE	16-08	Non-Compliance with Financial Disclosure Filing Requirements				16-06
ICE	16-09	Insufficient Procurement Information System for Management to Federal Financial Management System Reconciliation				16-07
ICE	16-10	Accounts Payable Lookback Analysis				16-08
ICE	16-11	Out of Period Expenses				16-09
MGMT	16-01	Journal Entry Review Process				16-01
MGMT	16-02	Procurement Information System for Management to Federal Financial Management System Reconciliation				16-02
MGMT	16-03	Ineffective Obligation Analysis				16-03
MGMT	16-04	Untimely Contract Expense Approval and Improper Invoice Posting				16-04
MGMT	16-05	Untimely Intra-governmental Payment and Collection Expense Approval				16-05

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			IAR			
			MW	SD	NC	
MGMT	16-06	Impact of General Information Technology Control Failures on Application Controls and System Generated Information Produced by the Entity	B			
NPPD	16-01	Revenue Accrual				16-01
NPPD	16-02	Approval of Personnel Actions				16-02
NPPD	16-03	Federal Financial Management System to Procurement Information System for Management Reconciliation				16-03
NPPD	16-04	Journal Entry Review Process				16-04
NPPD	16-05	Time and Attendance Approval				16-05
NPPD	16-06	Undelivered Orders	B			
NPPD	16-07	Internal Control Board Meetings				16-06
NPPD	16-08	Organizational Structure				16-07
NPPD	16-09	Impact of General Information Technology Control Failures on Application Controls and System Generated Information Produced by the Entity	B			
NPPD	16-10	Contract Expense Approval				16-08
NPPD	16-11	Intra-governmental Payment and Collection Expense Approval				16-09
NPPD	16-12	Untimely Federal Protective Service Recurring Security Work Authorization Setup within the General Ledger				16-10
NPPD	16-13	Undelivered Order Analysis	B			
NPPD	16-14	Performance Assessments				16-11
NPPD	16-15	Accounting for Property, Plant, and Equipment	C			
NPPD	16-16	Entity Level Control-Position Descriptions				16-12
NPPD	16-17	Accounts Payable Lookback Analysis				16-13
NPPD	16-18	Accounting for Continuous Diagnostics Monitoring Program Costs				16-14
OFM	16-01	Ineffective Controls over Review of Financial Disclosure Forms				16-01
OFM	16-02	Ineffective Controls over Designation of Intra-Governmental Transactions as Non-Acquisition				16-02
OFM	16-03	Non-Compliance with Federal Manager's Financial Integrity Act of 1982			G	
OFM	16-04	Intra-departmental Reconciliation of Unfilled Customer Order and Undelivered Order Balances				16-03

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			MW	SD	NC	
OFM	16-05	Inadequate Review of the Closing Package Notes, Including the Lines Loaded Report				16-04
S&T	16-01	Journal Entry Review Process				16-01
S&T	16-02	Procurement Information System for Management to Federal Financial Management System Reconciliation				16-02
S&T	16-03	Ineffective Obligation Analysis	B			
S&T	16-04	Untimely Intra-governmental Payment and Collection Expense Approval and Review				16-03
S&T	16-05	Impact of General Information Technology Control Failures on Application Controls and System Generated Information Produced by the Entity	B			
TSA	16-01	Ineffective Design of Communication of Relevant Accounting Literature and Ineffective Operating Effectiveness of Employee Performance Assessment Reviews				16-01
TSA	16-02	Insufficient Quality Review of Personnel Actions				16-02
TSA	16-03	Ineffective Controls over Invoice Three-Way Match				16-03
TSA	16-04	Ineffective Design of Controls over the Review and Approval of Direct and Material Laws and Regulations				16-04
TSA	16-05	Ineffective Controls over Depreciation of Transportation Security Equipment				16-05
TSA	16-06	Ineffective Controls over Property, Plant & Equipment Retirements				16-06
TSA	16-07	Ineffective Controls over the Review and Approval of the Payment Update Database				16-07
TSA	16-08	Ineffective Controls over the Property Inventory Counts				16-08
TSA	16-09	Failure to Design and Implement Controls over National Finance Center Payroll/Benefits Calculations				16-09
TSA	16-10	Ineffective Controls over WebTA and the Time and Attendance Process	B			16-10
TSA	16-11	Lack of Manual Compensating Controls over the Personnel Action Process				16-11

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			MW	SD	NC	
TSA	16-12	Ineffective Controls over the Federal Employees' Compensation Act				16-12
TSA	16-13	Ineffective Controls over Financial Disclosure Forms				16-13
TSA	16-14	Ineffective Controls over Accounts Receivable Estimate Review				16-14
TSA	16-15	Ineffective Design of Controls over the Review and Approval of Journal Entries				16-15
TSA	16-16	Non-Compliance with the Federal Financial Management Improvement Act of 1996			J	
USCG	16-01	Opening Balances	B			
USCG	16-02	Preparation of Financial Audit Manual 2010 Checklist				16-01
USCG	16-03	Budgetary Process – Undelivered Orders	B			
USCG	16-04	Financial Reporting Process (including manual adjustments)	B			
USCG	16-05	Civilian and Military Payroll				16-02
USCG	16-06	Operating Materials and Supplies				16-03
USCG	16-07	Fund Balance with Treasury				16-04
USCG	16-08	Construction in Process	C			
USCG	16-09	Personal Property and Equipment	C			
USCG	16-10	Real Property	C			
USCG	16-11	Property, Plant, and Equipment Site Visit Observations	C			
USCG	16-12	Environmental and Disposal Liabilities				16-05
USCG	16-13	Leases				16-06
USCG	16-14	Heritage Assets and Stewardship Property				16-07
USCG	16-15	Actuarial Liabilities	B			
USCG	16-16	Operating Expense Process				16-08
USCG	16-17	Intra-governmental Transactions and Balances	B			
USCG	16-18	Accounts Payable Accrual				16-09
USCG	16-19	Accounts Receivable				16-10
USCG	16-20	Financial Disclosure Reports				16-11
USCG	16-21	Federal Financial Management Improvement Act of 1996			J	
USCG	16-22	Statement of Financing				16-12

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Component	NFR No.	Description	Disposition ¹			FMC No.
			IAR			
			MW	SD	NC	
USCG	16-23	Entity Level Controls		D		
USCIS	16-01	Deficiencies in Monitoring and Recording Employee Completion of the Annual Ethics and Integrity Training				16-01
USCIS	16-02	Insufficiently Precise Review and Approval of H1-B and L Fraud Fee Journal Entries				16-02
USCIS	16-03	Deficiencies in the Recording of Property, Plant, and Equipment				16-03
USCIS	16-04	Ineffective Monitoring of Aged Obligations	B			
USCIS	16-05	Inaccurate and Unsupported Data in the Adjudication Information Management Systems (CLAIMS 3 and CLAIMS 4) and the Marriage Fraud Amendment System				16-04
USSS	16-01	Ineffective Control Over SF-132 to the SF-133 Reconciliation				16-01
USSS	16-02	Ineffective Controls over Time and Attendance Approval				16-02
USSS	16-03	Ineffective User Controls over HR Connect Data Transmissions	B			
USSS	16-04	Untimely Invoice Entry and Disbursements				16-03
USSS	16-05	Deficiencies in the Public and Confidential Financial Disclosure Reporting Process				16-04
USSS	16-06	Ineffective Controls in the Seized Property Tracking and Monitoring Process	B			
USSS	16-07	Ineffective Control Environment, Risk Assessment, Communication and Control Activities in the Property, Plant, and Equipment Process	C			
USSS	16-08	Federal Employment and Veterans' Benefits and Gain/Loss on Pension, Other Retirement Benefits, or Other Postemployment Benefits Assumption	B			
USSS	16-09	Control Deficiencies over Entity Level Controls		D	G	
USSS	16-10	Federal Financial Management Improvement Act of 1996			J	
USSS	16-11	Funds Management: Untimely Recording of Deobligations	B			

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Disposition Legend:

IAR	Independent Auditors' Report dated November 14, 2016
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	Information Technology Controls and Financial System Functionality
B	Financial Reporting
C	Property, Plant, and Equipment
D	Entity-Level Controls
E	Grants Management
F	Custodial Revenue and Refunds and Drawback
G	<i>Federal Managers' Financial Integrity Act of 1982</i>
H	<i>Single Audit Act Amendments of 1996</i>
I	<i>Antideficiency Act, as amended</i>
J	<i>Federal Financial Management Improvement Act of 1996</i>



Homeland Security

MAR 10 2017

MEMORANDUM FOR: John V. Kelly
Deputy Inspector General

FROM: Stacy Marcott 
Chief Financial Officer (Acting)

SUBJECT: Management Letter for the DHS FY 2016 Financial Statements
and Internal Control over Financial Reporting Audit

Thank you for the opportunity to comment on the Draft Management Letter for the FY 2016 DHS Financial Statements and Internal Control over Financial Reporting Audit. We concur with the report's recommendations and remain fully committed to addressing our remaining financial management challenges. As your letter notes, the findings in this report did not rise to the level of the Audit Report, dated November 14, 2016, but we are working to address them as part of our ongoing remediation efforts.

In FY 2016, the Department continued to make progress and sustained the unmodified (clean) financial statement opinion for the fourth consecutive year. We appreciate your office's contributions and insights, and we look forward to working with you as we implement our corrective actions to address our remaining material weaknesses and further strengthen DHS financial management and internal control.

If you have any questions, please contact me at (202) 447-5141 or stacy.marcott@hq.dhs.gov.



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Appendix C
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