

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

United States Secret Service's Management Letter for
FY 2012 DHS Consolidated Financial Statements Audit





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March 12, 2013

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

Ladies and Gentlemen:

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

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

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

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

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

Very truly yours,

KPMG LLP

United States Secret Service
Table of Financial Management Comments
September 30, 2012

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FMC 12-01 – Journal Entry (JE) Controls (NFR No. USSS 12-01)

During testwork over a sample of 55 JEs, the following deficiencies were identified:

- One instance in which documentation to support the purpose of an entry posted by the Office of Budget was not provided.
- One instance in which an entry was not properly reviewed and approved prior to posting.
- Several instances in which entries related to the recording of the pension liability and related expense were posted to the incorrect standard general ledger account.

Recommendations:

We recommend that United States Secret Service (USSS):

- Financial Management Division reinforce to the Accounting Staff that all Journal Vouchers (JVs) posted in the financial reporting system are subject to approval by either the Accounting Branch Chief or the Deputy Division Chief.
- Revise the procedures for posting the actuarial gains/losses based on the actuarial liability report. The procedures should also state that any changes to the procedures must be approved by the Deputy Chief of the Financial Management Division. This includes top-side adjustments from the Department as well.

FMC 12-02 – Funds Management Controls and Supporting Documentation (NFR No. USSS 12-02)

During testwork over USSS's open obligation balance and Undelivered Orders (UDOs) activity as of June 30, 2012, and September 30, 2012, we reviewed a sample of 118 transactions and identified the following deficiencies:

- One instance where the obligation had not had any activity since fiscal year (FY) 2009, and was therefore invalid and had not been de-obligated.
- One instance in which the period of performance (POP) was back dated on an executed contract in order to accept the invoice for the services performed.

During testwork over USSS's operating expenses type transactions as of June 30, 2012, and September 30, 2012, we reviewed a sample of 31 transactions and identified the following deficiencies related to improper 3-way match:

- One instance in which the invoice detail did not agree to the amount of the expense per the face of the invoice.
- One instance in which the goods received date (per the face of the invoice) did not agree to the receipt date recorded in the general ledger (GL).

The GL system contains limitations to appropriately post prior year de-obligations in accordance with the United States Standard General Ledger (USSGL) requirements for upward/downward adjustments.

Recommendations:

We recommend that USSS:

- Reinforce policies surrounding contract execution and ratification. Additionally, USSS sections that process payments within the Financial Management Division should be provided instruction regarding the need to utilize the correct received date and to review and have supporting documentation for all invoice charges.
- For open obligations, USSS should develop and provide instruction on procedures for monitoring open obligations, obligation activity and de-obligation.

FMC 12-03 – Deficiencies in USSS’s Seized Property Inventory Process (NFR No. USSS 12-03)

We statistically selected five seized property locations in which to observe the annual inventory and noted the following:

- One instance in which the chain of custody form was not available for inspection and verification but was included on the count sheet as inventory at the site.

Upon review of the inventory completion package, we noted the following:

- One instance in which the counterfeit tracking application (CTA) did not properly reflect the transfer of a case to another field office.

Upon review of the September consolidated reconciliation, we noted the following:

- One instance in which the total not-in-evidence notes per the reconciliation were not properly updated to reflect the September activity submitted by the field office.
- Subsequent to review and approval, the total notes reported on the reconciliation as of September 30, 2012 was corrected due to a mathematical error on the original approved reconciliation.

Recommendation:

We recommend that USSS’s Forensic Services Division management and evidence vault team schedule a meeting with the Financial Management Division and the CTA program manager to review the current policies and reporting procedures used for tracking and transferring evidence, and update as necessary.

FMC 12-04 – Human Resource Compliance and Controls (NFR No. USSS 12-04)

During testwork over a sample of 25 employee personnel actions (SF-52s), the following deficiencies were identified:

- Five instances in which the quality review for the personnel action was not completed timely (i.e., within one month following the effective date of the action).
- Four instances in which documentation to evidence the completion of the quality review was not provided.
- Two instances in which documentation to support award approval was unable to be provided.
- One instance in which the employee’s grade per the SF-52 did not agree to the SF-50.

During testwork over a sample of 53 employees’ payroll and benefit expense, the following deficiencies were identified:

- Inaccurate expenses calculations:

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- One instance in which the employee's overtime was calculated using the incorrect rate.
- Lack of documentation:
 - Four instances in which the SF-2809 (Federal Employees' Health Benefit (FEHB) form), evidencing either the current benefits election or the waiver of benefits, was unable to be provided.
 - Seven instances in which the current Thrift Savings Plan election form was unable to be provided.

Recommendation:

We recommend that USSS review all standard operating procedures and make necessary adjustments. Review a random sample of data on a biweekly basis to ensure that proper procedures are followed.

United States Secret Service
Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2012

NFR No.	Description	Disposition ¹			
		IAR			FMC
		MW	SD	NC	No.
12-01	Journal Entry (JE) Controls				12-01
12-02	Funds Management Controls and Supporting Documentation				12-02
12-03	Deficiencies in United States Secret Services' (USSS') Seized Property Inventory Process				12-03
12-04	Human Resource Compliance and Controls				12-04

¹Disposition Legend:

IAR	Independent Auditors' Report dated November 14, 2012
FMC	Financial Management Comment
MW	Contributed to a Material Weakness at the Department level when combined with the results of all other components
SD	Contributed to a Significant Deficiency at the Department level when combined with the results of all other components
NC	Contributed to Non-Compliance with laws, regulations, contracts, and grant agreements at the Department level when combined with the results of all other components
NFR	Notice of Finding and Recommendation

Cross-reference to the applicable sections of the IAR:

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



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Appendix B
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