

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

Federal Emergency Management Agency's
Management Letter for FY 2012 DHS Consolidated
Financial Statements Audit





OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

APR 10 2013

MEMORANDUM FOR: Edward Johnson
Chief Financial Officer
Federal Emergency Management Agency

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

SUBJECT: *Federal Emergency Management Agency's Management Letter for FY 2012 DHS Consolidated Financial Statements Audit*

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

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

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

Attachment



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

March 12, 2013

Office of Inspector General
U.S. Department of Homeland Security, and
Chief Financial Officer,
U.S. Department of Homeland Security Federal Emergency Management Agency (FEMA)
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 Federal Emergency Management Agency (FEMA) is a component of DHS. We noted certain matters, related to FEMA, 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 FEMA management in this letter. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. The disposition of each internal control deficiency identified during our FY 2012 audit – as either reported in our *Independent Auditors’ Report*, or herein – is presented in Appendix A. The status of internal control deficiencies identified during our FY 2011 audit is presented in Appendix B. Our findings related to information technology systems security have been presented in a separate letter to the OIG and the FEMA Chief Information Officer and Chief Financial Officer.



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

Very truly yours,

KPMG LLP

Federal Emergency Management Agency
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September 30, 2012

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FMC 12-01 – Inability to Link Systems to Significant Grant Programs (NFR No. FEMA 12-01)

We requested that Federal Emergency Management Agency (FEMA) provide an analysis to demonstrate the amount of undelivered orders (UDOs) flowing through each grant system during FY 2012. We asked that the analysis include Catalog of Federal Domestic Assistance Number, Grant Program, Responsible Directorate, Award System, Monitoring System, Grant Identifier, Obligation System, Obligation Amount, Payment System, Payment Amount, and the UDO reconciled balance.

We noted that a spreadsheet was created based on our request; however, FEMA was unable to identify the appropriate monitoring system for each grant program. Additionally, FEMA does not maintain a database that links grant systems to significant grant programs to facilitate the assessment of system-based controls over obligations and payments related to these programs.

Recommendations:

We recommend that FEMA:

- Develop and implement a monitoring control to ensure that the currently developed spreadsheet is updated when necessary.
- Implement a process to monitor which grant programs are flowing through which grant systems in order to facilitate the assessment of system-based controls over obligations and payments related to these programs.

FMC 12-02 – Ineffective Design of Controls Related to Grant Activities (NFR No. 12-05)

Based on control testwork performed over the Payment and Reporting System (PARS) to Integrated Financial Management Information System (IFMIS) reconciliation, we noted that the control is not properly designed. Instead of ensuring that all transactions from PARS reconcile to IFMIS, FEMA has designed the control to only follow up on system-generated exceptions. FEMA has not verified that the system-generated exception list is complete and accurate. Therefore, the reconciliation currently performed does not ensure that the PARS transactions which were accepted by IFMIS were properly posted and all transactions within PARS were uploaded.

Based on control testwork performed over the March 31, 2012, grant accrual review checklists, we noted several "prepared by" and "reviewed by" boxes had not been signed by the appropriate individuals.

Recommendations:

We recommend that FEMA:

- Enhance current PARS to IFMIS reconciliation procedures to ensure they are performed at a sufficiently detailed level to identify and correct any errors in data transfer activities between the systems.
- Reinforce with FEMA staff the control points established within the quarterly grant accrual checklist to ensure all control activities were completed in the quarterly process.

FMC 12-03 – Ineffective Design of Controls Related to Intragovernmental Activities (NFR No. FEMA 12-06)

Based on control testwork performed over the Federal Transit Administration (FTA) advance, we noted the Contracting Officer's Technical Representative (COTR) did not review the FTA expenditures as of December 31, 2011, or March 31, 2012, prior to them being recorded in IFMIS.

Recommendation:

We recommend that FEMA develop and implement a process to ensure timely COTR review and approval of FTA expenditures related to advance liquidation.

FMC 12-04 – Internal Control Deficiencies Identified over Claims Paid at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program (NFIP) (NFR Nos. FEMA 12-07 and FEMA 12-07a)

We selected nine insurance companies and tested a sample of 263 claim payments across those companies covering October 1, 2011 to March 31, 2012. During this testing, we noted the following errors at the insurance companies:

- For one sample item, the date of loss was incorrectly reported.
- For five sample items, a 60-day Proof of Loss waiver was not requested.
- For two sample items, a 60-day Proof of Loss waiver was requested subsequent to payment.
- For one sample item, the Proof of Loss modification letter was not issued in a timely manner.

For the nine insurance companies previously selected, we tested a sample of 126 claim payments across those companies covering April 1, 2012 to June 30, 2012. During this testing, we noted the following errors at the insurance companies:

- For one sample items, a 60-day Proof of Loss waiver was not requested.
- For one sample item, a 60-day Proof of Loss waiver referenced an incorrect claim.
- For two sample items, the claim amount paid did not agree to the final report.
- For two sample items, the claim loss date reported did not match the claim loss date in the claim file.

For the nine insurance companies previously selected, we tested a sample of 45 claim payments across those companies covering July 1, 2012 to August 31, 2012. During this testing, we noted the following error at the insurance companies:

- For one sample item, the claim paid amount did not agree to the final report.

Recommendations:

We recommend that FEMA:

- Follow up with each of the insurance companies to determine that appropriate corrective action has been implemented to address the exceptions noted.
- Provide increased oversight to insurance companies participating in the NFIP to ensure claims files are being processed and reviewed in accordance with NFIP guidelines before approval and issuance of claim payments.

FMC 12-05 – Deficiencies Identified over Premiums Written by FEMA’s NFIP (NFR Nos. FEMA 12-09 and FEMA-12-09a)

We tested a total of 296 written premium transactions during the period October 1, 2011 to March 31, 2012, which included the following: (a) a sample of 270 written premium transactions across nine insurance companies for internal control testwork and (b) a sample of 26 written premium transactions across 13 insurance companies for substantive testwork. We noted the following items:

- For one sample item, we noted the policy was not reviewed and approved by an underwriter in a timely manner.
- For eight sample items, we noted that the designated flood zone per the policy declaration page did not agree to the FEMA flood maps for the insured property address. Based on the incorrect flood zone used, we noted that the policy premium was calculated incorrectly.
- For one sample item, we noted that the designated flood zone per the policy declaration page did not agree to the FEMA flood maps for the insured property address; however, per the *NFIP Flood Insurance Manual*, the premium amount was not affected by the incorrect zone.

We tested a total of 142 written premium transactions during the period April 1, 2012 to June 30, 2012, which included the following: (a) a sample of 135 written premium transactions across nine insurance companies for internal control testwork and (b) a sample of 7 written premium transactions across 7 insurance companies for substantive testwork. We noted the following items:

- For one sample item, we noted the policy was not reviewed and approved by an underwriter in a timely manner.
- For three sample items, we noted that the designated flood zone per the policy declaration page did not agree to the FEMA flood maps for the insured property address. Based on the incorrect flood zone used, we noted that the policy premium was calculated incorrectly.
- For four sample items, we noted that the designated flood zone per the policy declaration page did not agree to the FEMA flood maps for the insured property address; however, per the *NFIP Flood Insurance Manual*, the premium amount was not affected by the incorrect zone.
- For one sample item, we noted that the insured property address information provided on the policy declaration page was insufficient to determine the correct flood zone.

We tested a total of 58 written premium transactions during the period July 1, 2012 to August 31, 2012, which included the following: (a) a sample of 45 written premium transactions across nine insurance companies for internal control testwork and (b) a sample of 13 written premium transactions across 13 insurance companies for substantive testwork. We noted the following items:

- For three sample items, we noted that the designated flood zone per the policy declaration page did not agree to the FEMA flood maps for the insured property address. Based on the incorrect flood zone used, we noted that the policy premium was calculated incorrectly.
- For one sample item, we noted that the insured property address information provided on the policy declaration page was insufficient to determine the correct flood zone.
- For one sample item, we noted that the premium was calculated using the incorrect elevation information on the elevation certificate.

Recommendations:

We recommend that FEMA:

- Follow up with each of the insurance companies noted above to determine that they have implemented the appropriate corrective action to address the exceptions identified.
- Provide increased oversight to insurance companies participating in the NFIP to ensure they process and review underwriting files in accordance with NFIP guidelines.
- Revise the *NFIP Flood Insurance Manual* to require that all flood zones included in insurance policy applications are subject to verification by an underwriter through the use of risk-based sampling techniques.

FMC 12-06 – Ineffective Controls over Procurement Payments and Monitoring Efforts (NFR No. FEMA 12-10a)

Payments:

- Based on our control testwork performed over a sample of 30 vendor payments for the three-month period ended June 30, 2012, we noted that for 1 of the 30 transactions selected, no receiving report was completed.
- Based on our control testwork performed over a sample of 30 disaster travel payments for the three-month period ended June 30, 2012, we noted that for 1 of the 30 transactions selected, the payment was not properly approved and certified for payment prior to being recorded in the IFMIS.

Monitoring Efforts:

- Based on our control testwork performed over a sample of 25 UDOs with a balance at June 30, 2012, we noted that for 1 of the 25 UDOs selected, the program contact had indicated as of the March 31, 2012, UDO quarterly review that the balance could be de-obligated. As of June 30, 2012, the balance still remained open.

Recommendations:

We recommend that FEMA:

- Develop a monitoring control to ensure proper adherence to existing policies regarding the review and approval of obligations and related expenditures.
- Develop a monitoring control to ensure proper adherence to existing document retention policies and procedures for expenses.
- Execute updates to UDO balances within 30 days of receipt of responses to the quarterly review and annual validation of UDOs.

FMC 12-07 – Ineffective Controls over Procurement and Non-Compliance with Federal Acquisition Regulation (NFR No. FEMA 12-10b)

Based on our control and compliance testwork performed over a sample of six contracts for the three-month period from July 1, 2012 – September 30, 2012, we noted the following exceptions:

- For two of the six contracts tested, the contract file checklist associated with the related contract was not provided.
- For one of the six contracts tested, only the closeout documentation was provided to support the sample.
- For one of the six contracts tested, the contract provided was not signed by the contractor.

Recommendation:

We recommend that FEMA develop and implement a monitoring program to ensure FEMA complies with all aspects of the Federal Acquisition Regulation and any controls implemented (i.e. contract file checklist) to aid in determining compliance with the Federal Acquisition Regulation.

FMC 12-08 – Deficiencies in the Monthly Budget Execution Reviews (NFR No. FEMA 12-11)

In July 2011, FEMA management implemented the use of the RM Online system to produce monthly budget execution reports based on approved spend plans and expenditure data extracted directly from the IFMIS data warehouse. Based on our walkthrough and inquiries, we noted that the RM Online system had not been consistently used during FY 2012 to compare spend plans to actual expenditure data. To mitigate deficiencies in the RM Online system, Budget Planning and Analysis Division personnel manually modified the reports generated by the system to perform monthly budget execution reviews; however, no documented controls existed over the preparation and review of these manual budget execution reports.

Recommendation:

We continue to recommend that FEMA revise standard operating procedures, including appropriate internal controls, over the preparation and review of monthly budget execution reports to ensure that: (1) a consistent process is established and implemented to monitor budget execution; (2) the information systems used for monitoring budget execution are aligned with FEMA's business processes; and (3) proper review of the monthly budget execution reports are performed prior to posting on FEMA's intranet.

FMC 12-09 – Deficiencies Identified in the Integrated Financial Management Information System Chart of Accounts and Transaction Codes (NFR Nos. FEMA 12-12 and FEMA 12-12a)

Based on our review of FEMA's FY 2012 IFMIS chart of accounts as of June 30, 2012, we noted the following exceptions:

- Ten accounts listed in the IFMIS chart of accounts were not listed within the 2012 United States Standard General Ledger (USSGL) Chart of Accounts.
- Four accounts were incorrectly labeled in the IFMIS chart of accounts, when compared to the 2012 USSGL Chart of Accounts.
- Four accounts were mapped incorrectly or listed under the wrong primary account in the IFMIS chart of accounts, when compared to the 2012 USSGL Chart of Accounts.
- Two accounts that were not included in the 2012 USSGL Chart of Accounts were marked as removed, but still existed within the IFMIS chart of accounts.

Based on our testwork performed over a sample of 24 transaction code numbers and 75 total transaction code transactions as of June 30, 2012, we identified that 17 transaction code transactions were not in compliance with the USSGL.

Based on our testwork performed over a sample of six transaction code numbers and 23 total transaction code transactions as of September 30, 2012, we identified that eight of the 23 total transaction code transactions selected for testwork were not in compliance with the USSGL.

Recommendations:

We recommend that FEMA:

- Develop and implement a monitoring process to periodically review the IFMIS chart of accounts to ensure it is in compliance with the USSGL.
- If prior year accounts are necessary to post beginning balances, develop and implement procedures to ensure accounts are deactivated timely once beginning balances are recorded.
- Develop a comprehensive transaction code crosswalk to determine whether IFMIS transaction codes are in compliance with the USSGL and why some transaction codes deviate from the USSGL.
- Review Standard Operating Procedures (SOP) 2600-004 to ensure the SOP properly addresses compliance with the USSGL, and update as necessary.

FMC 12-10 – Deficiencies in the Preparation and Review of the Government Accountability Office (GAO) Financial Audit Manual 2010 – Checklist for Federal Accounting (NFR No. FEMA 12-14)

Upon independent review of FEMA’s initial Checklist as of March 31, 2012, we determined FEMA did not properly complete all questions in the Checklist, as follows:

- Responses to five questions which provided options for accounting methods included one response and did not indicate which option was applicable.
- Eleven explanations provided in the Checklist required more information per the Checklist instructions.
- Responses to four questions were not consistent with the accounting policies and operations currently implemented at FEMA.

Although the Checklist was reviewed for completeness, accuracy, and validity and approved by FEMA management in accordance with the FY 2012 DHS Office of Financial Management (OFM) *Component Requirements Guide for Financial Reporting*, inconsistencies in the Checklist noted were not identified by the review.

Recommendation:

We recommend that the FEMA Office of Chief Financial Officer (OCFO) develop and implement standard operating procedures over the annual preparation and review of the GAO Financial Audit Manual 2010 – Checklist for Federal Accounting.

FMC 12-11 – Deficiencies in the Development of Mission Assignment Policies and Procedures (NFR No. FEMA 12-15)

Under SOP Number 2600-007, *Financial Processing of Mission Assignments*, dated March 20, 2012, FEMA requires mission assignment-related UDO balances to be validated annually as of June 30 of each year. Per Section 4-5 III. B of the SOP:

“FEMA Finance Center Integrated Planning System retains copies of all validation correspondence with the Other Federal Agencies (OFAs) and Recovery Offices in the respective mission assignment file. FEMA Finance Center Integrated Planning System reviews OFA responses and follows up with OFAs as needed. If an OFA has not provided validation or responded to the quarterly reviews and/or the annual validation request, FEMA, on a case- by-case basis, will follow up with the OFA to request

validation and provide notification that continued non-response beyond the deadline will result in FEMA Finance Center recommendation to the mission assignment Manager to initiate close-out. Such correspondence is addressed to the OFA and Recovery Office.”

However, FEMA does not designate an escalation process or closeout timeline to ensure the mission assignment UDO balance is validated or closed out prior to fiscal year-end.

Recommendation:

We recommend that FEMA develop and implement an escalation process and closeout timeline for instances where the OFA does not provide validation of the mission assignment in a timely manner.

FMC 12-12 – Inadequate Documentation Related to Payroll Processing and Lack of Formal Policies and Procedures (NFR No. FEMA 12-17)

Based on process walkthroughs and interim internal control testwork, we determined FEMA does not have policies and procedures for resolving leave error discrepancies.

We identified a control gap related to the lack of reconciliation between payroll data submitted through Web Time and Attendance (WebTA) and payroll disbursements by the National Finance Center (NFC).

From a sample of 45 individuals selected for leave error resolution testwork, we identified 28 leave errors that were not corrected within one pay period. Additionally, of those 28 errors, 13 errors were not corrected by year-end.

From a sample of 15 new hires selected for testwork over the review and approval of Standard Form (SF)-52, we identified two instances in which SF-52 were not approved by the Budget Division. We also identified one instance in which the SF-52 was approved after the employee started with the agency.

From a sample of 58 individuals selected for payroll compliance testwork, we identified the following instances in which FEMA was unable to provide the following supporting documentation:

- Three Notices of Personnel Action Forms (SF-50s) – documents an employee’s pay grade/step, position, salary information, employment date, etc.
- Three Leave and Earnings Statements – documents an employee's pay and leave status for each pay period.
- Four WebTA records – employee’s official timesheet for the pay period.
- 19 Federal Employees’ Health Benefits election forms.
- 27 Thrift Savings Plan election forms.
- 22 Federal Employees’ Group Life Insurance election forms.
- Any NFC screen prints for all 58 sample items.

Recommendations:

We recommend FEMA:

- Develop, approve and implement policies and procedures for resolving leave error discrepancies.
- Implement a control to reconcile payroll information submitted to NFC through WebTA with the related disbursement made by NFC.
- Formalize and monitor the control over the review and resolution of leave error discrepancies.
- Ensure all SF-52 forms are properly approved in a timely manner as required.
- Maintain adequate documentation for all payroll information, including benefit elections and approved salary amounts.

FMC 12-13 – Ineffective Monitoring of Internal Controls via the Internal Control Board (NFR No. FEMA 12-18)

FEMA established the Internal Control Board to take on the responsibilities for developing and implementing formal processes to provide oversight of internal control assessments and improvements; establish a FEMA-wide accountability structure; and monitor ongoing internal control activities. In FY 2012, FEMA could not provide evidence indicating Internal Control Board meetings were held in accordance with the Internal Control Board Charter.

Recommendation:

We recommend FEMA hold Internal Control Board meetings in accordance with its charter, or revise its charter to utilize established management meetings to monitor internal controls and document the minutes of those meetings.

FMC 12-14 – Lack of Documentation Related to the Contingent Legal Liabilities Review (NFR No. FEMA 12-19)

As of June 30, 2011, Financial Statements and Reporting Branch (FSRB)-3013, *Contingent Legal Liabilities Review and Disclosure*, established an SOP over contingent legal liabilities for FEMA's Office of Chief Counsel and OCFO FSRB, which is located within the Financial Management Division.

In preparing these SOPs, management referred to DHS Financial Management Policy Manual Chapter 3.10 Legal Liabilities; DHS Delegation 0400.2, Delegation to the General Counsel, dated September 14, 2004; DHS Delegation to the General Counsel Regarding Claims Authority, dated March 9, 2007; and DHS Component Requirements Guide for Financial Reporting.

The FSRB Chief did not document her review of the interim contingent liability information as of June 30, 2012, as required by the *Contingent Legal Liabilities Review and Disclosure* SOP.

Recommendation:

We recommend that FEMA document its review of the contingent legal liability accrual and disclosure in accordance with its written policies and procedures.

FMC 12-15 – Deficiencies Identified over Claims’ Loss Reserves at Selected Insurance Companies that Participate in FEMA’s NFIP (NFR Nos. FEMA 12-20 and FEMA 12-20a)

We selected nine insurance companies and tested a sample of 263 claim payments and across those companies covering October 1, 2011 to March 31, 2012, and 65 loss reserve balance as of March 31, 2012, across all NFIP insurance companies. During this testing, we noted the following errors at the respective insurance companies:

- For three sample items, the claim and related loss reserve were not closed without payment in a timely manner, causing reserves to be overstated.
- For one sample item, the incorrect type of loss reserve related to the claim transaction was established.
- For one sample item, the loss reserve related to the claim transaction was not updated properly to move reserves from Building to Contents, causing Building reserves to be overstated and Contents reserves to be understated.
- For 29 sample items, the loss reserve related to the claim transaction was not updated properly to reflect claim payments or additional adjustor reports, causing reserves to be overstated or understated.
- For one sample item, reserves were incorrectly re-established for a claim that was previously closed without payment, causing reserves to be overstated.
- For one sample item, the loss reserve related to the claim transaction was not established for a supplemental payment request. Payment was not made in a timely manner, causing reserves to be understated.
- One insurance company did not adjust loss reserves based on the final report. Additionally, for 20 sample items at that company, the loss reserve related to the claim transaction was not updated upon receipt of the final report.

We selected nine insurance companies and tested a sample of 171 claim payments across those companies covering April 1, 2012 to August 31, 2012 (126 as of June 30, 2012 and 45 as of August 31, 2012) and 65 loss reserve balances as of August 31, 2012 across all NFIP insurance companies noting similar types of errors as identified through March 31, 2012.

Recommendations:

We recommend that FEMA:

- Follow up with each of the insurance companies to determine that appropriate corrective action has been implemented to address the exceptions noted.
- Provide increased oversight to insurance companies participating in the NFIP to ensure the specific and consistent establishment and reporting of loss reserves and subsequent adjustments to the loss reserves.

FMC 12-16 – Issues Identified in Journal Voucher Testwork (NFR Nos. FEMA 12-23 and FEMA 12-23a)

Based on our journal voucher (JV) testwork as of March 31, 2012, we noted that for 1 of 51 JV sample items the vendor code per the hard copy JV did not agree to the transaction posted in IFMIS. The entry recorded in IFMIS was correct; however, the hard copy JV did not properly reflect the correct attributes indicating the hard copy JV document was not properly reviewed and approved.

We noted 7 of 51 JV sample items were corrections of previous JVs that would not have been necessary if the original entry was properly reviewed and approved to determine if the budget object classification code (BOC) was proper.

Based on our JV testwork as of June 30, 2012, we noted that for 1 of 40 JV sample items the original entry was recorded in the reverse order. The incorrect entry required a correcting entry to properly post the transaction. The entry should have been reviewed to ensure proper posting logic prior to the entry being recorded in IFMIS.

We noted for 1 of 40 JV sample items, the amount per the hard copy JV did not agree to the transaction posted in IFMIS. The incorrect amount indicates the hard copy JV was not properly reconciled to the posting in IFMIS prior to being reviewed and approved.

We noted for 2 of 40 JV sample items, the entries posted did not support FEMA's intended underlying transaction. The entries improperly impacted the Statement of Budgetary Resources. As the entries were only intended to reclassify attributes, and not impact account balances, the entries were improper and should not have been recorded. The incorrect entries required additional entries to post the correct activity and correct the balances.

We noted 1 of 40 JV sample items should not have been recorded as the correct entry was already recorded via another JV, causing this JV to be unnecessary. The incorrect entry required an additional entry to reverse the improper effect.

Based on our JV testwork as of September 30, 2012, we noted that for 1 of 37 JV sample items the hard copy JV did not agree to the transaction posted in IFMIS. The hard copy JV indicated the JV should be set up to auto reverse and the JV was not set to auto reverse in IFMIS. Therefore, the entry recorded in IFMIS did not properly reflect the hard copy JV document that was reviewed and approved.

We noted 4 of 37 JV sample items were not in full compliance with the USSGL and additional USSGL guidance included in the *Guide for Basic Accounting Reporting for Direct Loan Programs without Collateral in Federal Credit Program*.

Recommendation:

We recommend that FEMA dedicate sufficient resources to ensure JVs are timely and thoroughly researched, reviewed, and approved prior to entering them into IFMIS. Proper review should include determining that the correct BOCs and USSGL accounts are used in the JVs.

FMC 12-17 – Non-Compliance with the Prompt Payment Act (NFR No. FEMA 12-24)

Based on our testwork performed over a sample of 78 vendor payments made during FY 2012, we noted that four of the payments were not made within the required time period (within 30 days of the receipt of the invoice or acceptance of goods) and FEMA did not pay the required interest penalty for the late payments.

Recommendations:

We recommend that FEMA:

- Develop a monitoring control to ensure adherence to existing Prompt Payment policies and procedures for all applicable payment activities, and
- Provide additional training to ensure invoices are entered into IFMIS timely and the payment due date is entered correctly.

FMC 12-18 – Lack of Communication to Employees Regarding the Department of Homeland Security Office of Inspector General Hotline and the Code of Conduct (NFR No. FEMA 12-25)

Based on testwork conducted over a sample of 15 employees as to whether they were aware of the DHS/FEMA Code of Conduct and knew how to access the DHS/FEMA Code of Conduct, we noted one employee did not provide a response to our question.

Additionally, based on testwork performed over a sample of 15 FEMA employees questioned as to whether they were aware of the DHS Office of Inspector General Hotline, we noted one employee did not provide a response to our question.

Recommendation:

We recommend that FEMA management improve communications to their employees regarding the existence of the DHS Office of Inspector General Hotline and the FEMA Code of Conduct, their importance, and the situations in which the hotline should be used.

FMC 12-19 – General Office of Chief Procurement Officer Lack of Responsiveness and Process Knowledge (NFR No. FEMA 12-26)

Contract File Maintenance:

During our testwork over vendor contract obligations as of March 31, 2012, we requested complete contract files for each selected sample. We noted that the Office of Chief Procurement Officer (OCPO) was unable to provide complete contracts, identify requested obligation documents, or identify the documents required under Federal Acquisition Regulations for various samples selected. Furthermore, we noted that various samples were not provided in a timely or efficient manner.

General Document Availability:

During our testwork over vendor contract validity, we requested documentation to support the validity, including the period of performance, for a selected sample of 168 contracts. We noted that OCPO was unable to provide support for the validity of the vendor contracts. As an alternative procedure, the FEMA Finance Center was able to provide documentation supporting vendor payment activity to validate the selected balances.

General Procurement Knowledge and Personnel Accessibility:

- When asked questions regarding common procurement documents, such as contracts or invoices, we noted that OCPO employees were not familiar with or were not knowledgeable of the subjects and would request that we discuss questions with other points of contact.

Recommendations:

We recommend that OCPO:

- Implement a uniform system of document retention and organization and set clear guidelines on documentation uniformity.
- Implement a clear set of guidelines and responsibilities for all employees in a financial procurement capacity. OCPO should conduct training so employees are aware of responsibilities assigned to them and knowledgeable of their process areas.

FMC 12-20 – Inability to Closeout Assistance to Firefighter Grants (NFR No. FEMA 12-27)

During our testwork performed over Assistance to Firefighter Grants (AFG), we noted that system closeout issues continue to exist in FY 2012. Although a manual process was implemented in June 2011, currently, only grant awards from FY 2002 through FY 2007 are being closed out manually. Continuing issues prevented closeouts related to grant awards from FY 2008 through FY 2010. (The award process for AFG grants takes place during the 4th quarter of the fiscal year; as such, FY 2011 AFG grants do not require closeout in the current fiscal year.)

Recommendations:

We recommend that the Grants Program Directorate:

- Implement planned modifications to the AFG system that are designed to enable the closeout of AFG awards from FY 2008 through FY 2010.
- Utilize the established manual closeout process for AFG awards prior to FY 2008 and for subsequent awards until the system capability exists to complete closeouts.

FMC 12-21 – Deficiencies in the Monitoring of Staffing Requirements (NFR No. FEMA 12-30)

When reperforming the reconciliation of the OCFO staffing roster as of August 2012 with the OCFO organizational chart as of August 2012, we noted 21 instances in which the staffing roster had not been updated based on updates to the organizational chart.

Recommendations:

We recommend that FEMA:

- Develop and implement policies and procedures to update the OCFO staffing roster timely. These policies and procedures should include a control to ensure the staffing roster is accurate and is reconciled to the organizational chart on a periodic basis.
- Monitor the effectiveness of the newly developed and implemented control.

FMC 12-22 – Improvements Needed in Management’s Review of the Legacy Preparedness Accrual Model (NFR No. FEMA 12-31)

Our review of FEMA’s legacy preparedness grant accrual process revealed the following deficiencies within the process as of March 31, 2012:

- Variances between estimated and actual advances and liabilities that exceed the acceptable variance range thresholds established by FEMA policies were not adequately addressed. The advance variances at September 30, 2011, and December 31, 2011, were \$16.4 million and \$(49.4) million respectively. Additionally, the liability variances at September 30, 2011, and December 31, 2011, were \$130.8 million and \$(291.3) million, respectively.

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Our review of FEMA's legacy preparedness grant accrual process revealed the following deficiencies within the process as of September 30, 2012:

- The underlying drawdown data used to formulate the accrual amount was understated during the September 30, 2012, model application. We noted that due to a PARS system error on July 12, 2012, all drawdowns on that day were entered manually under one user ID and as such were not included in the model's original underlying data for one user ID. The total drawdown omission amount, approximately \$105,571,000, which had an impact of approximately \$5 million. FEMA did not record an on-top adjustment related to the discrepancy.
- The underlying data, as confirmed with grantees, contained several discrepancies between the expenditures reported and those used in the accrual model. Upon review of these amounts, we noted that several differences were due to timing errors (between FEMA and the Grantee's reporting systems). Several of the amounts, however, were discrepancies due to an internal PARS error. Within PARS, grantees are able to submit expenditures in the 90 day period following the submission of a final Federal Financial Report and date those expenditures to the final Federal Financial Reports. As grantees are able to report expenditures to prior Federal Financial Reports, the expenditure data used in the September 30, 2012, model includes expenditures from the fourth quarter. FEMA was unable to provide a complete population of all expenditures reported in the fourth quarter that were back-dated to final Federal Financial Reports (from the 3rd quarter). As such, FEMA was unable to quantify the amount of the information that should have been excluded from the underlying model data.
- Variances between estimated and actual advances and liabilities that exceed the acceptable variance range thresholds established by FEMA policies were not adequately addressed. The liability variance at June 30, 2012, was \$105.8 million.

Our review of FEMA's Grants and Training grant accrual process revealed the following deficiency within the process for the FY 2012:

- The management review of the acceptable variance range is only completed annually and was not completed for FY 2012.

Recommendations:

We recommend that FEMA management:

- Conduct training to ensure that the individuals responsible for preparing and reviewing the grant accrual clearly understand their roles and responsibilities for the preparation and review of the grant accruals.
- Review and resolve, and document the resolution of large variances between estimated and actual advances and liabilities, including assessing the reasonableness of the estimation methodology.
- Conduct training to ensure grantees understand the SF-425 form and complete it properly.

FMC 12-23 – Untimely Reduction of Invalid Unfilled Customer Orders (UCOs) (NFR No. FEMA 12-32)

In two samples of 20 total opening UCO balances, we identified seven errors that overstated the opening balance by \$75 million and three additional errors that understated the balance by \$27 million. In interim and final samples of 7 items and 6 items, respectively, we identified 1 error that overstated the ending balance by \$17 million and 4 errors that overstated the balance by \$54 million.

In each of the samples, we identified agreements with expired period of performances (POPs), balances unsupported by open obligations, unsupported JVs, or inaccurately recorded cash collections. Several of the current year exceptions were transactions that should have been recorded in prior years.

Recommendation:

We recommend that FEMA develop procedures to monitor the status of recorded UCOs to determine that they remain valid and accurately recorded. We further recommend that FEMA consider implementing management level reviews to routinely review the aging of UCOs.

FMC 12-24 – Improvements Needed in Management’s Review of the Acceptable Variance Range for the SmartLink Accrual Model (NFR No. FEMA 12-34)

Our review of the SmartLink grant accrual process revealed the following deficiencies within the process as of March 31, 2012:

- A variance between estimated and actual advances that exceed the acceptable variance range thresholds established by FEMA policies was not adequately addressed. The advance variance at December 31, 2011, was \$26.9 million. This discrepancy fell outside the target error rate for the advance estimates for the SmartLink grant accrual.

Our review of the SmartLink grant accrual process revealed the following deficiencies within the process as of September 30, 2012:

- Variances between estimated and actual advances and liabilities that exceed the acceptable variance range thresholds established by FEMA policies were not adequately addressed. The advance variance at March 31, 2012, was \$23.1 million. Additionally, liability variances at June 30, 2012, and March 31, 2012, were \$86.6 million and \$96.1 million, respectively. These discrepancies fell outside the target error rate for the advance and liability estimates for the SmartLink grant accrual.

Our review of the SmartLink grant accrual process revealed the following deficiency within the process for FY 2012.

- The management review of the acceptable variance range is only completed annually and was not completed for FY 2012. The most recent acceptable variance range review was documented on December 31, 2010.

Recommendations:

We recommend that FEMA management:

- Review, resolve, and document the resolution of large variances between estimated and actual advances and liabilities, including assessing the reasonableness of the estimation

methodology.

- Conduct training to ensure grantees understand the SF-425 form and complete it properly.

FMC 12-25 – Deficiencies in the Methodology and Controls Related to the Non-Grant, Non-Intragovernmental Accounts Payable Accrual (NFR No. FEMA 12-37)

Based on our review of the accounts payable accrual model methodology, an accounts payable accrual is not generated for the following fund codes and BOCs, and the Intergovernmental Accrual Process does not specifically address the accrual process for the following funds:

- Fund codes 79, 87-89, 8C, 9B, and 9C (all related to limited and no-year funds for the Chemical Stockpile Emergency Preparedness Program)
- Fund code H7 (related to State and Local Programs Fund – Public Safety Interoperable Communications)
- BOC codes 2503 (Delegation of Authority – Disaster Unemployment Assistance) and 2504 (Delegation of Authority – Crisis Counseling Assistance),

During testwork performed over the September 30, 2012, accounts payable accrual, we noted that upon request for the reconciliation of the UDO data used to calculate the UDO constraints in the JV Limit tab to the general ledger (GL), FEMA noted a discrepancy of nearly \$2 billion between the GL and the UDO data included in the model. As the UDO data used to calculate the JV Limit tab was understated, this resulted in an inaccurately low JV Limit, which resulted in the original submission of the accrual to be understated by \$15 million.

Recommendations:

We recommend that FEMA:

- Incorporate an assessment of the BOCs and funds noted above into the Quarterly Accounts Payable Accrual Process and document the assessment.
- Adequately perform and review all steps listed on the accounts payable accrual model checklist to ensure inputs to the model are accurate.

FMC 12-26 – Deficiency Identified Related to the Preparation and Review of the Retrospective Review Analysis (NFR No. FEMA 12-38)

The December 31, 2011, retrospective review completed by the third-party contractor actuary and reviewed by the FEMA actuary did not include a comprehensive discussion of the large redundancy (\$1.3 billion) of the actuarial insurance liability calculated as of September 30, 2011.

Recommendation:

We recommend that FEMA incorporate a comprehensive analysis of any large fluctuations noted in the actual to estimate comparison of the insurance liability in the retrospective review performed.

FMC 12-27 – Deficiencies in the Verification and Collection of Required Supplementary Stewardship Information and Performance Measurement Data for the Annual Financial Report’s Management’s Discussion and Analysis (NFR No. FEMA 12-39)

In the FY 2012 DHS *Annual Financial Report*, FEMA did not report any Required Supplementary Stewardship Information for Nonfederal Physical Property. However, as part of FEMA’s operations, grants are made to State and Local Governments for construction and equipment. FEMA does not currently have an official policy related to these expenditures and does not track the amount of such expenditures.

In the FY 2012 DHS Annual Financial Report, information for one performance measurement was not provided by FEMA’s program offices.

Recommendations:

We recommend that FEMA:

- Develop and implement policies and procedures to account for Nonfederal Physical Property that includes determining the proper reporting requirements and the monitoring of the materiality of such items.
- Develop and implement a process to ensure that performance measures can be objectively tracked, calculated, and verified.
- Develop and implement a review process to validate the data and the performance measurement calculations prior to submission to DHS.

Federal Emergency Management Agency
Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2012

NFR No.	Description	Disposition ¹			
		IAR			FMC
		MW	SD	NC	No.
12-01	Inability to Link Systems to Significant Grant Programs				12-01
12-02	Ineffective Controls over Grant Obligations, De-obligations, and Monitoring Efforts		G	K	
12-02a	Ineffective Controls over Grant Monitoring Efforts		G	K	
12-02b	Ineffective Controls over Grants Management and Non-Compliance with Cash Management Improvement Act		G		
12-03	Non-Compliance with 5 Code of Federal Regulations (CFR) Part 2634 and 5 CFR Part 2638 Related to Ethics Requirement		F		
12-04	Ineffective Controls over Intragovernmental Activity Obligations, Deobligations, and Payments	E			
12-05	Ineffective Design of Controls Related to Grants Activities				12-02
12-06	Ineffective Design of Controls Related to Intragovernmental Activities				12-03
12-07	Internal Control Deficiencies Identified over Claims Paid at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program (NFIP) as of March 31, 2012				12-04
12-07a	Internal Control Deficiencies Identified over Claims Paid at Selected Insurance Companies that Participate in FEMA's NFIP as of August 31, 2012				12-04
12-08	Ineffective Controls over the Recording of Funding Transactions	E			
12-09	Deficiencies Identified over Premiums Written by FEMA's NFIP as of March 31, 2012				12-05
12-09a	Deficiencies Identified over Premiums Written by FEMA's NFIP as of August 31, 2012				12-05
12-10	Ineffective Controls over Procurement Obligations, Deobligations, Payments, and Monitoring Efforts and Non-Compliance with Federal Acquisition Regulation (FAR)	E			
12-10a	Ineffective Controls over Procurement Payments and Monitoring Efforts				12-06
12-10b	Ineffective Controls over Procurement and Non-Compliance with FAR				12-07
12-11	Deficiencies in the Monthly Budget Execution Reviews				12-08
12-12	Deficiencies Identified in the Integrated Financial Management Information System Chart of Accounts and Transaction Codes				12-09
12-12a	Continued Deficiencies Identified in the Integrated Financial Management Information System Transaction Codes as of September 30, 2012				12-09
12-13	Ineffective Design of Controls Related to Monitoring Obligations	E			
12-14	Deficiencies in the Preparation and Review of the Government Accountability Office (GAO) Financial Audit Manual 2010 – Checklist for Federal Accounting				12-10
12-15	Deficiencies in Development of Mission Assignment Policies and Procedures				12-11
12-16	Ineffective Controls over Tracking Grants Eligible for Close-out		G		
12-17	Inadequate Documentation Related to Payroll Processing and Lack of Formal Policies and Procedures				12-12
12-18	Ineffective Monitoring of Internal Controls via the Internal Control Board				12-13
12-19	Lack of Documentation Related to the Contingent Legal Liabilities Review				12-14
12-20	Deficiencies Identified over Claims' Loss Reserves at Selected Insurance Companies that Participate in FEMA's NFIP as of March 31, 2012				12-15

Federal Emergency Management Agency
Crosswalk – Financial Management Comments to Active NFRs
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NFR No.	Description	Disposition ¹			
		IAR			FMC
		MW	SD	NC	No.
12-20a	Deficiencies Identified over Claims' Loss Reserves at Selected Insurance Companies that Participate in FEMA's NFIP as of August 31, 2012				12-15
12-21	Deficiencies in the Monthly Standard Form SF-132 to SF-133 Reconciliation Process	E			
12-22	Budgetary Accounting Issues Identified in Journal Voucher (JV) Testwork through June 30, 2012	E			
12-23	Issues Identified in JV Testwork through June 30, 2012				12-16
12-23a	Issues Identified in JV Testwork through September 30, 2012				12-16
12-24	Non-Compliance with Prompt Pay Act				12-17
12-25	Lack of Communication to Employees Regarding the Department of Homeland Security (DHS) Office of Inspector General Hotline and the Code of Conduct				12-18
12-26	General Office of Chief Procurement Officer Lack of Responsiveness and Process Knowledge				12-19
12-27	Inability to Closeout Assistance to Firefighter Grants				12-20
12-28	Monitoring of Audit Findings in Accordance with Office of Management and Budget Circular A-133		G		
12-29	Deficiencies Related to the Public Disclosure Filing Process		F		
12-30	Deficiencies in the Monitoring of Staffing Requirements				12-21
12-31	Improvements Needed in Management's Review of the Legacy Preparedness Accrual Model				12-22
12-32	Untimely Reduction of Invalid Unfilled Customer Orders (UCOs)				12-23
12-33	Improper Processing of Undelivered Orders (UDOs) and Expenses	E			
12-34	Improvements Needed in Management's Review of the Acceptable Variance Range for the SmartLink Accrual Model				12-24
12-35	Untimely De-Obligation of UDOs	E			
12-36	Failure to Recertify Policies and Procedures in Various Areas		F		
12-37	Deficiencies in the Methodology and Controls Related to the Non-Grant, Non-Intragovernmental Accounts Payable Accrual				12-25
12-38	Deficiency Identified Related to the Preparation and Review of the Retrospective Review Analysis				12-26
12-39	Deficiencies in Verification and Collection of Required Supplementary Stewardship Information and Performance Measurement Data for the Annual Financial Report's Management's Discussion and Analysis				12-27

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

Federal Emergency Management Agency
Crosswalk – Financial Management Comments to Active NFRs
September 30, 2012

Cross-reference to the applicable sections of the IAR:

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

Federal Emergency Management Agency
Status of Prior Year NFRs
 September 30, 2012

NFR No.	Description	Closed ²	Disposition ¹
			Repeat (2011 NFR No.)
11-01	Insufficient Controls over Processing Mission Assignments (MAs)		FEMA 12-04
11-02	Deficiencies in Development and Application of Policies Related to the Non-Grant, Non-MA, Non-System-Generated Accounts Payable (A/P) Accrual		FEMA 12-37
11-03	Non-Compliance with 5 Code of Federal Regulations (CFR) Part 2638 and 5 CFR Part 2638 Related to Ethical Requirements		FEMA 12-03
11-04	Inability to Closeout Assistance to Firefighter Grants		FEMA 12-27
11-05	Deficiencies in Development of MA Policies and Procedures		FEMA 12-15
11-06	Ineffective Controls over Processing and Monitoring Obligations		FEMA 12-04, FEMA 12-10, FEMA 12-10a, FEMA 12-10b, FEMA 12-13
11-07	Incomplete Implementation of Controls over the Recording of Funding Transactions		FEMA 12-08
11-08	Lack of Certain Documentation Related to Compliance with the Improper Payments Elimination and Recovery Act of 2010	X	
11-09	Ineffective Controls over Tracking Grants Eligible for Closeout		FEMA 12-16
11-10	Financial Monitoring of Grants by the Grant Programs Directorate		FEMA 12-02, FEMA 12-02a, FEMA 12-02b
11-11	Inability to Link Systems to Significant Grant Programs		FEMA 12-01
11-12	Deficiencies in the Preparation and Review of the Government Accountability Office (GAO) Financial Audit Manual 2010 – Checklist for Federal Accounting (the Checklist)		FEMA 12-14
11-13	Monitoring of Audit Findings in Accordance with Office of Management and Budget (OMB) Circular Nos. A-133 and A-50, and Related Compliance Matters		FEMA 12-28
11-14	Inaccuracy of Claims' Loss Reserves at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program (NFIP)		FEMA 12-20, FEMA 12-20a
11-15	Internal Control Deficiencies over Claims Paid at Selected Insurance Companies that Participate in FEMA's NFIP		FEMA 12-07, FEMA 12-07a
11-16	Lack of Formal Policies and Procedures in Various Areas		FEMA 12-36
11-17	Deficiencies in the Monthly Spend Plan Reconciliation Preparation Process		FEMA 12-11
11-18	Deficiencies Identified in the General Ledger Chart of Accounts and Transaction Codes		FEMA 12-12, FEMA 12-12a
11-19	Improvements Needed in Review and Recording of Year-End MA Accrual	X	
11-20	Ineffective Controls over Grants Management		FEMA 12-02, FEMA 12-05, FEMA 12-06
11-21	Budgetary Accounting Issues Identified in Journal Voucher (JV) Testwork Through September 30, 2011		FEMA 12-22
11-22	Improvements Needed in Management's Review of Grant Data and Automated Reconciliations in Grant Accrual Models		FEMA 12-34, FEMA 12-31
11-23	Issues Identified in JV Testwork through September 30, 2011		FEMA 12-23, FEMA 12-23a
11-24	Compliance with the Prompt Payment Act		FEMA 12-24
11-25	Improper Processing and Untimely De-Obligation of Undelivered Orders (UDOs)		FEMA 12-33, FEMA 12-35
11-26	Deficiencies in Verification and Collection of Performance Measurement Data for the Annual Financial Report's Management's Discussion and Analysis		FEMA 12-39
11-27	Deficiencies in the Grant Accrual Methodology	X	

Federal Emergency Management Agency
Status of Prior Year NFRs
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11-28	Deficiencies over the NFIP Treasury Information Executive Repository JV Adjustments	X	
11-29	Lack of communication regarding the existence of the Department of Homeland Security Office of Inspector General Fraud Hotline		FEMA 12-25

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

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



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Department of Homeland Security

Appendix C
Report Distribution

Department of Homeland Security

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