

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

Management Letter for the FY 2013 DHS Financial Statements and Internal Control over Financial Reporting Audit






OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

APR 1 2014

MEMORANDUM FOR: Jeffrey Bobich
Director
Office of Financial Management

FROM: Anne L. Richards 
Assistant Inspector General for Audits

SUBJECT: *Management Letter for the FY 2013 DHS Financial Statements and Internal Control over Financial Reporting Audit*

Attached for your information is our final report, *Management Letter for the FY 2013 DHS Financial Statements and Internal Control over Financial Reporting Audit*. This report contains observations and recommendations related to internal control deficiencies that were not required to be reported in the *Independent Auditors' Report* over the fiscal year (FY) 2013 Department of Homeland Security (DHS) financial statements and internal control over financial reporting. Internal control deficiencies which are considered significant deficiencies were reported, as required, in the *Independent Auditors' Report*, dated December 11, 2013, which was included in the FY 2013 DHS *Agency 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 2013 financial statements and is responsible for the attached management letter dated January 15, 2014, 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

January 15, 2014

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

Ladies and Gentlemen:

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

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 XIV 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 2013 audit – as either reported in our *Independent Auditors’ Report*, or herein – is presented in Appendix A. Our findings related to information technology systems have been presented in a separate letter to the DHS Office of Inspector General and the DHS Chief Information 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’ organization gained during our work to make comments and suggestions that we hope will be useful to you.

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

DHS’ response to the deficiencies identified in our audit is described in the Appendix B.

DHS’ 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.



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

Very truly yours,

KPMG LLP

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I. CUSTOMS AND BORDER PROTECTION (CBP)

CBP – Financial Management Comment (FMC) 13-01 – Automated Commercial System Deficiency over the Accumulation of Accelerated Payments Against a Drawback Bond (*Notice of Finding and Recommendation (NFR) No. CBP 13-07*)

The Automated Commercial System (ACS) did not properly account for bond sufficiency of claims that involved a continuous bond. Specifically, the automated control that prevented a claimant from exceeding the bond amount on file did not operate effectively. The control was designed to accumulate all open accelerated payments against a continuous bond to ensure that the bond is sufficient. However, ACS did not always properly track open accelerated payments against bonds. As a result, CBP may not have sufficient surety against overpayment of a drawback accelerated payment claim. Additionally, manual procedures were not in place to ensure the sufficiency of bonds.

ACS remains the system of record for drawback claims and bonds. In fiscal year (FY) 2012, CBP began developing a script within ACS, known as “ACP,” that indicates the bond number, claimants listed on the bond, anniversary date of the bond, bond value, and a list of all drawback accelerated payments applied against the bond. However, the script has not been effectively implemented and released into production within ACS.

Recommendation:

We recommend that CBP complete testing and release the revised script into production and issue an updated memo to the drawback centers announcing the reinstatement of the ACP script, with instructions on how to use the script.

CBP – FMC 13-02 – Weaknesses in the Recognition of Goods and Services Received as of March 31, 2013 (*NFR No. CBP 13-08*)

During test work as of March 31, 2013, we reviewed a statistical sample of 49 operating expense type transactions and identified the following:

- In one transaction, the goods receipt amount was greater than the amount of the invoice. CBP recorded the goods receipt transaction when the service was received. However, CBP was subsequently granted a discount on the invoice but did not apply this discount against the original goods receipt, resulting in an overstatement of expenses by the discounted amount of \$268,000.
- In seven transactions, goods or services received were not recorded in the proper accounting period. Contracting Officer Representatives (CORs) and Accountants did not consistently enter goods receipt and service entry sheets timely into Systems, Applications, and Products (SAP), CBP’s financial reporting system.

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Recommendation:

We recommend that CBP continue to develop a process to adjust outstanding service entry sheets amounts once an invoice has been posted.

CBP – FMC 13-03 – Weaknesses in CBP’s Review of Monthly Fund Balance with Treasury Reconciliation (NFR No. CBP 13-09)

During our testing of the December fund balance with Treasury reconciliation, we noted an overstatement of \$1.483 billion between the amount reported in CBP’s Treasury Information Executive Repository (TIER) trial balance as of December 31, 2012 and the amount reported by the Department of the Treasury (Treasury) for Treasury Account Fund Symbol 200310 *Duties on Imports*. The overstatement occurred because of an erroneous entry made during the reconciliation process between ACS and SAP, which ultimately impacted the fund balance with Treasury reported in TIER.

Recommendation:

We recommend that CBP implement procedures to ensure that the ACS reconciliation is reviewed by the Lead Staff Accountant or the Financial Statement Section Chief prior to the TIER submission.

CBP – FMC 13-04 – Deficiencies in the Public and Confidential Financial Disclosure Reporting Process (NFR No. CBP 13-10)

During testwork over a sample of 15 employees required to file an Office of Government Ethics (OGE) 278, Public Financial Disclosure Report, the following deficiencies were identified:

- Two OGE-278 forms were not certified by the Reviewing Official within 60 days of the date the form was filed.

During testwork over a sample of 25 employees required to file an OGE-450, Confidential Financial Disclosure Reports, the following deficiencies were identified:

- Two employees did not file the OGE-450 by the February 15 deadline and were not granted extensions.
- One employee did not file the OGE-450 within 30 days of assuming a Confidential Filer position and was not granted an extension.

Recommendations:

We recommend that CBP:

- Ensure the Final Reviewer of the OGE-278s manually adjust the “to do” list in the OGE-278 electronic filing system, Financial Disclosure Management, to display the earliest deadlines for review and certification at the top of the list.
- Conduct a meeting with all OGE-450 point of contacts prior to the calendar year 2014 annual OGE-450 filing deadline to review the actions needed to ensure extension requests are handled in a consistent manner.

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- Address the system issue with the OGE-450 electronic filing system, Human Resource Business Engine, so filers are given a correct due date.

CBP – FMC 13-05 – Deficiencies in the Performance Management Program (NFR No. CBP 13-12)

During test work over a sample of 45 non-senior executive service employees (including both supervisory and non-supervisory employees) the following deficiencies were identified:

- One non-supervisory employee did not conduct either the initial or mid-year performance meeting within the required timeframe.
- Four supervisory employees did not conduct either the initial or mid-year performance meeting within the required timeframe.

Recommendations:

We recommend that CBP:

- Continue to closely monitor the progress and timeliness of CBP program offices in their completion of employee performance plan processes.
- Establish more stringent accountability requirements of each program office.
- Continue to send messages on a regular basis to program offices concerning the initiation of performance plans, completion of mid-cycle performance reviews, and completion of final ratings of record.

CBP – FMC 13-06 – Weaknesses in the Review of Entry Edit/Exception Reports (NFR No. CBP 13-16)

During testing at eleven Ports of Entry, we identified the following instances of non-compliance with CBP Directive 5610-006A, *Entry Deletion and Entry or Entry Summary Cancellation*, and CBP Directive 5610-004B, *Resolving Certain ACE Exception and Error Reports*:

- B06, ACS List of Rejected/Cancelled Entries Report: two reports did not have cancellations verified by an independent verifier.
- B07, ACS List of Unpaid/Rejected Entries: one report was reviewed and signed, but not within the required timeframe of one week; and eight reports were not reviewed.
- B08, Late Report: Entry Releases with No Follow-Up Summaries: one report was reviewed and signed, but not within the required timeframe of one week, and three reports were not reviewed.
- B84, Budget Clearing Account and Suspense Item Report: one report was not generated and reviewed; two reports were not reviewed; and two reports were reviewed and signed, but not within the specified timeframe of one week.
- S21, Cargo Selectivity Weekly Selectivity Delete Report: two reports were not generated; and three reports were not reviewed.
- Q07, Unreported Quota Report: two reports were not generated; four reports were not reviewed; and one report was not reviewed by a supervisor.

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Recommendations:

We recommend that CBP:

- Update Directives 5610-006A and 5610-004B to establish the timeframes in which reports must be run and completed, as well as the extent to which reports must be reviewed.
- Continue to monitor the entry/exception reports through the Self Inspection Process and work with the Office of Field Operations to enforce adherence to the directives.

CBP – FMC 13-07 – Weaknesses in the Trade Compliance Measurement Program (NFR No. CBP 13-19)

During testing performed at eleven ports of entry, a sample of 120 Trade Compliance Measurement (TCM) reviews was examined. The following conditions related to the TCM program were identified:

- A TCM reviewer did not detect the use of an incorrect conversion rate used to convert the value of the goods to U.S. dollars for one TCM review.
- Port personnel did not retain the associated supporting documentation to support the quantity or value of the import for one TCM review.
- Port personnel did not retain the associated supporting documentation to support the deductions to the invoiced value that appeared on the CBP Form-7501, Entry Summary, for one TCM review.
- A TCM reviewer did not detect a discrepancy between the value used to calculate the duties, taxes, and fees on the CBP Form-7501 and the value per the importer's invoice for one TCM review.

Additionally, during testing over a sample of 22 Monthly TCM reports, we noted that two reports were not completed by addressing the open Validation Activities.

Recommendations:

We recommend that CBP:

- Correct the conditions related to the deficiencies identified in the TCM reviews conducted at specific ports.
- Implement controls to ensure that Port Directors follow the existing policies and procedures for supervisory oversight of the TCM program.
- Reinforce policies and procedures to all field offices and port locations.

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CBP – FMC 13-08 – Implementation of Controls over Determining Classification of Leases (NFR No. CBP 13-20)

CBP had not fully implemented processes and controls for the identification of lease agreements as capital or operating. CBP does not maintain clear, traceable documentation to evidence how it determines the classification of leases as capital or operating.

Recommendation:

We recommend that CBP update its lease directive to require the completion and retention of the personal property and Office of Information Technology lease evaluation tool and establish related responsibilities.

CBP – FMC 13-09 – Improper Review and Untimely Deobligation of Undelivered Orders (NFR No. CBP 13-21)

During testing of the March and September quarterly obligation analyses, we identified seven instances in which an obligation was marked as “invalid” but should have instead been marked “valid”.

During testing of CBP’s inactive obligations (i.e. those with no activity in the current fiscal year), as of May 31, 2013, we selected a statistical sample of 83 open obligations and identified four instances in which the period of performance on the obligation had expired. CBP did not provide sufficient supporting documentation to support that the obligations were still valid for financial reporting purposes. These items were identified as either Status 1 or Status 2 in the March quarterly obligation analysis.

Recommendation:

We recommend that the CBP National Finance Center (NFC) continue to communicate with the Office of Procurement and Facilities Management and Engineering (FM&E) in addition to the other program offices to ensure timely and accurate reviews of undelivered order (UDO) balances.

CBP – FMC 13-10 – Weaknesses in Controls over Customs-Trade Partnership Against Terrorism Benefits (NFR No. CBP 13-23)

During testing of a sample of 25 Customs-Trade Partnership Against Terrorism (C-TPAT) partners, benefits for three partners were not appropriately applied in ACS.

Recommendations:

We recommend that CBP:

- C-TPAT Evaluations and Assessment Branch (EAB) forward instructions for corrective action to the assigned field offices and correct all discrepant sample accounts identified during the audit.

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- Periodically inform field offices of their responsibility to ensure that ACS is updated with current benefit level, in accordance with the Benefits Standard Operating Procedures (SOP) and ACS Benefits Webinar training.
- Implement an ACS audit of corresponding tier status with the C-TPAT portal to be conducted monthly or quarterly. Any discrepancies should be forwarded to the assigned field office for correction. All corrective action, once communicated as completed, should be verified in ACS by the EAB. Formal reporting of C-TPAT/ACS audit results and corrective actions should be forwarded to the C-TPAT Program Director for review.

CBP – FMC 13-11 – Deficiencies in the Seized Inventory Process (NFR No. CBP 13-24)

During physical inventory observation procedures conducted at nine seized property vaults, the following deficiencies were identified:

- On two different dates in one location, the log book evidenced that only one person entered the vault for a period of time.
- One instance where the amount listed on the Customs Form 6051, *Custody Receipt for Seized Property and Evidence*, did not agree with the amount listed in the Seized Asset and Case Tracking System (SEACATS) inventory, resulting in a 0.06 kilogram overstatement.

Recommendation:

We recommend that CBP periodically remind the Directors of Field Operations and Ports of the proper CBP policies and procedures that guide their activities around the custody, management, and accountability of seized property.

CBP – FMC 13-12 – Deficiencies in the Control Environment Surrounding the Use of Reimbursable Work Authorizations (NFR No. CBP 13-25)

CBP personnel entered into Reimbursable Work Authorizations agreements with U.S. Army Corps of Engineers using a procurement process that is outside of CBP's normal procurement function. In doing so, CBP bypassed internal controls that require the use of a warranted contracting officer.

Recommendations:

We recommend that CBP:

- Continue to implement the changes in the DHS Interagency Acquisitions Guide and DHS Acquisition Alert 13-19, which outlines DHS policy relating to intra-governmental transactions, including interagency acquisitions, intra-agency acquisitions, and intra-governmental financial transactions that do not result in a contract or order.
- Revise CBP Directive 5320-028D, which defines the appropriate uses of an interagency agreement (IAA). Office of Administration (OA) FM&E issued a memorandum to its personnel in September 2013 to reinforce appropriate IAA usage and the accompanying documentation required to support the OA Procurement Directorate's issuance of an IAA.

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CBP – FMC 13-13 – Deficiencies in Tracking Leases (NFR No. CBP 13-27)

During our testing of CBP's lease information as of September 30, 2013, we selected a sample of 25 lease payments and identified the following:

- Nine instances, three involving personal property leases and six involving real property leases, in which a payment was made towards a cancellable lease agreement in which the lease agreement did not appear in CBP's listing of leases as of September 30, 2013.
- Two instances, one personal property and one real property, in which a lease was misclassified as cancellable when it should have been non-cancellable.
- One instance in which the monthly lease payment was incorrect.

Recommendations:

We recommend that CBP:

- Make the required modifications to the personal property lease certification control and consider additional controls to further enhance effective personal property lease tracking.
- Continue to enforce and train on the existing data management policy established by FM&E, which clearly defines FM&E Program Management Office responsibilities in the management of CBP real property lease data.

CBP – FMC 13-14 –Retrospective Review over Estimates (NFR No. CBP 13-28)

During audit testing, we noted that CBP did not perform a retrospective review to analyze variances between estimated amounts recorded as accruals and actual amounts incurred, once known. We noted a lack of retrospective review of estimates in the following areas:

- Refund & Drawback Payable (based on subsequent disbursement testing)
- Anti-Dumping/Countervailing Duties Payable
- Funded Payroll Accrual

Recommendation:

We recommend that CBP develop an annual retrospective assessment of the Refund & Drawback Payable (based on subsequent disbursement testing), Anti-Dumping/Countervailing Duties Payable, and Funded Payroll Accrual to validate the methodology used.

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CBP – FMC 13-15 – Deficiencies in the Inventory and Related Property Process
(NFR No. CBP 13-29)

During testing at five Office of Air and Marine (OAM) sites performing an annual inventory, the following discrepancies were identified:

- At one location, one of the items selected (JLG Scissor Life 33') was recorded as a Type 1 inventory at a value of \$38,750. Type 1 inventory is tracked as inventory held for use. However, it should have been classified as Type 6 inventory, which are tools and equipment used in the facility and are tracked as Property, Plant & Equipment or expensed, depending on their value. This resulted in an overstatement of Inventory and Related Property and an understatement of operating expense in the amount of \$38,750.
- At one location, there were six items with a location of "L-3 CANADA" and a description of "TWT/TWT Power Supply" with an overall value of \$1,362,066. Upon inquiry of the site personnel, it was determined that this inventory was purchased and located at the L-3 site in Canada and has remained there since acquisition, rather than at the location reported on the count sheet. The items were inventoried by L-3 Canada personnel and therefore do not result in a misstatement to the inventory held for use balance. However, the location code for the items should have been updated to reflect that they were located at the L-3 Canada site.
- At one location, there was a lack of segregation of duties. The Logistics Supervisor was conducted the inventory count, and reviewed the count for discrepancies.

Recommendation:

We recommend that CBP OAM monitor contractor's performance regarding compliance with property accountability. Property that is located at the sub-contractors facility is inventoried yearly and OAM reviews the results to ensure the correct property location is entered into the Computerized Aircraft Reporting and Material Control System.

CBP – FMC 13-16 – Deficiencies in the Review of Adjusting Journal Entries (NFR No. CBP 13-30)

During our testing of Adjusting Journal Entries (AJEs) at year-end we noted that CBP incorrectly used the FY 2012 cost factors instead of the FY 2013 cost factors in the imputed pension cost calculations for the fourth quarter AJE.

Recommendation:

We recommend that CBP create a checklist that ensures the proper cost factors are used in the calculation of Office of Personnel Management (OPM) pension benefit.

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CBP – FMC 13-17 – Insufficient Review of Apportionment Categories (NFR No. CBP 13-31)

During our review of the June 30, 2013, financial statements, we noted that CBP determined that certain funds, as presented in the prior year financial statements, were misclassified initially between Category A and Category B. CBP reclassified these balances for reimbursable obligations between Category A and Category B in the current year.

Recommendation:

We recommend that the CBP budget analyst responsible for system updates related to the categorization of funding routinely validate the fund classification with the budget analyst responsible for the Standard Form (SF)-132, *Apportionment and Reapportionment Schedule*, to ensure accurate financial reporting

CBP – FMC 13-18 –Consideration for Deferred Revenue Related to Puerto Rico (NFR No. CBP 13-32)

As of September 30, 2013, CBP recognized \$45.1 million in earned revenue related to Puerto Rico that it had not yet earned. CBP recognizes duties collected on behalf of Puerto Rico as earned revenue after reclassifying amounts transferred to Puerto Rico and refunds paid on Puerto Rico's behalf to custodial revenue. Funds retained and therefore recognized as earned revenue first cover expenses, and then any un-liquidated obligations. Any amounts retained in excess of expenses incurred should be recorded as deferred revenue.

Recommendation:

We recommend that CBP implement a procedure to review custodial activity related to Puerto Rico to ensure proper recognition of deferred revenue.

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II. FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)

FEMA – FMC 13-01 – Inability to Link Systems to Significant Grant Programs (*NFR No. FEMA 13-01*)

We requested that FEMA provide an analysis to demonstrate the amount of UDOs flowing through each grant system during FY 2013. We asked that the analysis include six items: (1) the Grant Program; (2) the Catalog of Federal Domestic Assistance number; (3) the responsible Directorate; (4) the award, monitoring, obligation, and payment systems used; (5) the relevant obligation and payment accounting strings; and (6) the reconciled net UDO balance.

This information requested during the FY 2013 audit was the same information requested during the FY 2011 and FY 2012 audits. Per communication with FEMA, appropriate changes had not been made to remediate the finding related to the inability to link significant grant systems.

Recommendations:

We recommend that FEMA:

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

FEMA – FMC 13-02 – Management Review Control for the Annual Subsidy Re-Estimate Calculation (*NFR No. FEMA 13-02*)

During our direct loan walkthrough at the FEMA Finance Center (FFC), we noted that FEMA did not have a formal management review control designed or implemented to ensure the accuracy of FEMA's direct loan subsidy re-estimate calculation.

Recommendation:

We recommend that FEMA develop and implement a process to review and approve the direct loan subsidy and subsidy re-estimate calculations.

FEMA – FMC 13-03 – Insufficient Communication to Employees of the Department of Homeland Security Office of Inspector General Hotline and Code of Conduct (*NFR No. FEMA 13-03*)

Based on testwork conducted over a sample of 15 FEMA employees interviewed to determine if they were aware of the DHS and FEMA Standards of Conduct (which we referred to as the Code of Conduct during these interviews, consistent with terminology used in our walkthroughs) and knew how to access the DHS and FEMA Standards of Conduct, we noted three employees were not aware of the DHS and FEMA Standards of Conduct and four employees were not aware of where they could obtain or access a copy of the DHS and FEMA Standards of Conduct.

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Additionally, based on testwork performed over a sample of 15 FEMA employees interviewed to determine if they were aware of the DHS Office of Inspector General (OIG) Hotline and how to access the DHS OIG Hotline, we noted three employees were not aware of the DHS OIG Hotline or how to access the DHS OIG Hotline.

Recommendations:

We recommend that FEMA:

- Incorporate the awareness of DHS/FEMA Standards of Conduct and the DHS OIG Hotline information into FEMA-required trainings.
- Continue to improve communications with its employees publicizing the DHS/FEMA Standards of Conduct and the DHS OIG Hotline.

FEMA – FMC 13-04 – Deficiencies in the Monthly Budget Execution Reviews (NFR No. FEMA 13-04)

During FY 2013, management used a manual template-based process in order to prepare the monthly budget execution reports. Based on our walkthrough and inquiries, we noted that only draft procedures existed for the preparation of these reports, and no documented procedures or controls existed over the review of these reports. Additionally, when we requested the manual budget execution reports as of February 28, 2013, the reports provided by the Budget Planning and Analysis Division (BPAD) covered only Funds 90 and 1E, FEMA's Management and Administration, Salaries and Expenses fund accounts.

Recommendations:

We recommend that FEMA:

- Finalize the draft standard operating procedures over the preparation of the monthly budget execution reports.
- Revise standard operating procedures to include appropriate internal controls for the review and maintenance of monthly budget execution reports.

FEMA – FMC 13-05 – Oversight by the National Flood Insurance Program (NFIP) Standards Committee (NFR No. FEMA 13-05)

Based on process walkthroughs, we determined the NFIP Standards Committee had not met since April 2012. Additionally, we determined five vacant positions existed on the Standards Committee as of July 31, 2013 and had existed for over two months. The five vacant positions represented members of the designated Write Your Own (WYO) companies, pools, or other entities.

Additionally, we determined Federal Insurance and Mitigation Administration (FIMA) personnel did not provide an accurate listing of the current NFIP Standards Committee members in May 2013 upon our request.

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Recommendation:

We recommend that FEMA develop and implement policies and procedures which require the Standards Committee to meet on a periodic basis and ensure vacancies are filled in a timely manner.

FEMA – FMC 13-06 – Deficiencies Related to the Public Disclosure Filing Process (NFR No. FEMA 13-06)

We selected a sample of 24 individuals required to file public disclosures (OGE Form 278) in 2013 and noted the following exceptions:

- For 10 individuals selected, the FEMA Agency Ethics Official did not complete his/her initial review within 60 days of the filer's submission.
- For 2 individuals selected, the new entrant public disclosure form was not completed within 30 days of assuming the public filer position.

Recommendations:

We recommend that FEMA:

- Utilize the recent additional staffing resource in the FEMA Ethics Office to allow for the dedication of sufficient time to complete the initial review of OGE Form 278 within 60 days of the filers' submissions.
- Develop and implement procedures to ensure all new entrants complete OGE Form 278 within 30 days of their entry on duty date or have a valid extension included in their files.

FEMA – FMC 13-07 – Internal Control Deficiencies Identified over Claims Paid at Selected Insurance Companies that Participate in FEMA's NFIP as of March 31, 2013 (NFR No. FEMA 13-07)

We tested a total of 350 claim payments during the period October 1, 2012 to March 31, 2013, which included the following: (a) a sample of 270 claims paid transactions across nine insurance companies for internal control testwork, and (b) a sample of 80 claims paid transactions across 17 insurance companies for substantive testwork. We noted the following exceptions:

- For one control sample item, the original Proof of Loss (POL) obtained for the supplemental payment was not available.
- For one control sample item, the claim was paid without a signed POL from the insured.
- For one control sample item, the claim was paid without a 60-day POL waiver from FEMA.
- For three control sample items, the amount paid to the insured was calculated incorrectly.

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Recommendations:

We recommend that FEMA:

- Follow-up with each insurance company identified above to determine that appropriate corrective action has been implemented to ensure compliance with the Standard Flood Insurance Policy's POL requirement.
- Enhance monitoring and oversight of the 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 claims.
- Identify and implement systemic solutions to ensure the accuracy of claim payments based on the information documented in the claim file.

FEMA – FMC 13-08 – Internal Control Deficiencies Identified over Premiums Written by FEMA's NFIP (*NFR Nos. FEMA 13-08 and 13-08a*)

We tested a total of 287 written premium transactions during the period October 1, 2012 to March 31, 2013, 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 17 written premium transactions across 10 insurance companies for substantive testwork. We noted the following exceptions:

- For one control sample item, we noted a valid street address was not provided for the insured property address, and thus, we were unable to verify the flood zone per the FEMA Flood Maps.
- For one control sample item, we noted the policy effective date was calculated incorrectly based on the policy quote date, and did not adhere to the standard 30-day wait period from the endorsement request date.

In addition, we tested a total of 197 written premium transactions during the period April 1, 2013 to August 31, 2013, which included the following: (a) a sample of 180 written premium transactions across nine insurance companies for internal control testwork, and (b) a sample of 17 written premium transactions across eight insurance companies for substantive testwork. We noted the following exceptions:

- For one control sample item as of June 30, 2013, we noted a rural route was provided for the insured property address, and thus, we were unable to verify the flood zone per the FEMA Flood Maps.
- For one control sample item as of August 31, 2013, we noted a proper physical location was not provided for the insured property address, and thus, we were unable to verify the flood zone per the FEMA Flood Maps.
- For one control sample item as of August 31, 2013, we noted the policy was written in the incorrect flood zone.

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Recommendations:

We recommend that FEMA:

- Follow-up with each insurance company identified above to determine that appropriate corrective action has been implemented 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.

FEMA – FMC 13-09 – Non-Compliance with 5 Code of Federal Regulations (CFR) Part 2634 and 5 CFR Part 2638 Related to Ethics Requirements (NFR No. FEMA 13-11)

For a sample of 22 new employees from October 1, 2012 to June 30, 2013, FEMA was unable to provide documentation that 11 of them had completed initial ethics training in FY 2013 per 5 CFR § 2638.703.

In addition, FEMA did not maintain one complete and accurate list of confidential filers required to file a Confidential Financial Disclosure Report (OGE Form 450) and attend annual ethics training to ensure compliance with 5 CFR § 2634 and 2638.

- Of the 2,206 identified filers, 53 did not respond to the Office of Chief Counsel (OCC) as of July 25, 2013 with an OGE Form 450 or completed job aide to demonstrate that they were not required filers.
- Of a sample of 59 potential filers, OCC was not able to provide the OGE Form 450 filing or completed job aide for 33 individuals.

Recommendations:

We recommend that FEMA:

- Consistently use the FEMA Employee Knowledge Center to track initial ethics training, including the implementation of procedures to ensure that ethics training for all new employees outside of the National Capital Region is administered and tracked.
- Develop and implement policies and procedures to effectively identify all employees required to file an OGE Form 450.
- Clarify the roles and responsibilities of OCC, the Office of the Chief Component Human Capital Officer, and other supporting parties as they relate to identifying and executing the OGE Form 450 filing requirement.

FEMA – FMC 13-10 – Deficiencies in Policies and Procedures over Updating Loss Reserves at Insurance Companies that Participate in FEMA's NFIP (NFR No. FEMA 13-15)

Based on our process walkthroughs with FIMA personnel, we determined that the insurance companies participating in the NFIP did not consistently update loss reserves following the

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receipt of additional claims adjuster information. For example, WYO companies and the Direct Servicing Agent (DSA) were not required to:

- Update loss reserves within a certain timeframe, or note in claims documentation why loss reserves were not updated, after new information is provided by the adjuster.
- Review and update loss reserves, or note in claims documentation why loss reserves were not updated, as of specific period ends to ensure accurate reporting of loss reserve information to FEMA.

Recommendations:

We recommend that FEMA:

- Require WYO companies and the DSA to formally document their loss reserve policies and procedures at the company level.
- Perform a regular (e.g., monthly) review of the total outstanding NFIP loss reserve balance for all WYO companies and the DSA.

FEMA – FMC 13-11 – Deficiencies Identified in the Integrated Financial Management System Chart of Accounts and Transaction Codes (NFR No. FEMA 13-25)

Based on our review of FEMA's FY 2013 Integrated Financial Management System (IFMIS) chart of accounts as of June 30, 2013, we noted the following exceptions, four of which remained as of September 30, 2013:

- Ten accounts listed in the IFMIS chart of accounts were not listed within the 2013 U.S. Standard General Ledger (USSGL) Chart of Accounts.
- Two accounts were incorrectly labeled in the IFMIS chart of accounts, when compared to the 2013 USSGL Chart of Accounts.
- Three accounts were mapped incorrectly or listed under the wrong primary account in the IFMIS chart of accounts, when compared to the 2013 USSGL Chart of Accounts.
- Three accounts that were not included in the 2013 USSGL Chart of Accounts were labeled as "account no longer used" but still existed within the IFMIS chart of accounts and had not been deactivated at the time of our testing.

Based on our substantive testwork performed over all 34 new transaction codes (T-codes) and 164 total T-code transactions as of June 30, 2013, we identified that 4 T-code transactions were not in compliance with the USSGL. Additionally, we identified 9 T-code transactions that did not contain the related budgetary/proprietary entry required by the USSGL.

Based on our control testwork performed over a sample of 8 T-code approval forms and 13 total T-code transactions as of June 30, 2013, we identified that 2 T-code approval forms and the related 3 total T-code transactions were not approved prior to T-code creation in IFMIS.

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Based on our substantive testwork performed over a sample of 24 new T-codes and 52 total T-code transactions as of September 30, 2013, we identified 8 T-code transactions that did not contain the related budgetary/proprietary entry required by 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 T-code crosswalk to determine whether IFMIS T-codes are in compliance with the USSGL and why some T-codes deviate from the USSGL.
- Review SOP 2600-004 to ensure the SOP properly addresses compliance with the USSGL, update as necessary, and enforce the required review procedures contained in it.

FEMA – FMC 13-12 – Ineffective Controls over Intergovernmental Advances (NFR No. FEMA 13-26)

Based on control testwork performed over the Federal Transit Administration (FTA) advance, we noted the regional COR did not review the FTA expenditures as of September 30, 2013 within a reasonable timeframe following the end of the quarter. Specifically, as of December 3, 2013, a regional COR review of the FY 2013 4th quarter expenditures for the advance had not been completed.

Recommendation:

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

FEMA – FMC 13-13 – Deficiencies in the Development of Mission Assignment Policies and Procedures and High Risk Undelivered Orders Write-off Process (NFR No. FEMA 13-27)

Under SOP Number 2600-007, *Financial Processing of Mission Assignments*, dated April 2, 2013, FEMA required mission assignment-related UDO balances to be validated as of June 30th of each year. We noted that the SOP was updated in FY 2013 to include a footnote defining case-by-case basis. The footnote reads: “Case-by-case is based on age/activity and the agency as those that are a revolving fund cannot be de-obligated without authorization as it could result in them being deficient.” This updated language did not remediate the prior year NFR condition related to FEMA’s lack of an escalation process for unresponsive other federal agencies (OFA) to ensure the mission assignment UDO balances were validated prior to fiscal year-end.

FEMA’s June 30 and September 30 high risk UDO journal voucher (JV) process increased the accuracy of FEMA’s financial statements at September 30; however, it did not address the underlying issue that UDOs identified as invalid were not escalated in a timely manner for

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closeout. In addition, FEMA's high risk UDO JV did not include all the UDOs identified for closeout because certain UDOs that had been identified for closeout did not meet FEMA's business rules to be included in the June 30 or September 30 UDO JV population as documented in Exhibit 5-3 of FEMA's 2600-022, *Procedures for High Risk UDO Balance Write-off SOP*. For example, based on our control testwork performed over a sample of 25 UDO balances as of June 30, 2013, we noted that for 1 of the 25 UDOs selected, the UDO had been identified for deobligation and closeout during the UDO quarterly validation as of June 30, 2013. FEMA noted that the UDO did not meet the business rules to be included in the June 30, 2013 high risk UDO JV, but that it was being monitored on the Grants Program Directorate Closeout Log. However, as of September 30, 2013, the UDO had not been de-obligated.

Recommendations:

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.
- Develop and implement procedures to ensure the timely deobligation and closeout of UDOs identified as no longer required.

FEMA – FMC 13-14 – Certain Payroll Processing Control Deficiencies (NFR No. FEMA 13-28)

Based on process walkthroughs and interim internal control testwork, we determined FEMA did not have policies and procedures for resolving leave error discrepancies. In addition, in a sample of 45 individuals with leave error discrepancies, we noted 19 leave errors that were not corrected within one pay period. Of those 19 exceptions, 4 were not corrected by year-end.

Based on process walkthroughs, we determined that FEMA did not perform a reconciliation between data submitted through WebTA and what is paid by the third-party service provider.

Recommendations:

We recommend that FEMA:

- Develop and implement policies and procedures for resolving leave error discrepancies.
- Formalize and monitor the control over the review and resolution of leave error discrepancies.
- Develop and implement a control to reconcile payroll information submitted to the third-party service provider through WebTA with the related disbursement made by the provider.

FEMA – FMC 13-15 – Deficiencies Identified over Claims' Loss Reserves at Selected Insurance Companies that Participate in FEMA's NFIP as of August 31, 2013 (NFR No. FEMA 13-29)

We tested 65 loss reserve balances as of February 28, 2013 and 65 loss reserve balances as of August 31, 2013, for a total of 130 loss reserve balances across 25 WYO insurance companies and the DSA. During this testwork, we noted the following exceptions related to management of

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loss reserves at the WYO insurance companies and the DSA, all of which caused reserves to be overstated:

- For two sample items, the loss reserve related to the claim transaction was not updated properly to reflect advance payments or additional adjuster reports.
- For three sample items, the loss reserve related to the claim transaction was not updated when the claim was closed.
- For one sample item, a claim was reopened to correct an overpayment and reserves were established in error.
- For one sample item, two dates of loss with separate loss reserves related to the same claim transaction were open at the same time.
- For one sample item, the loss reserve was calculated incorrectly.
- For one sample, the loss reserve remained open on a claim with a date of loss older than 20 years; this claim should have been closed based on lack of claim activity, and the loss reserves should have been reduced to zero.

In addition, we noted the following exceptions related to incorrect transactions submitted from the WYO insurance companies and the DSA to the third-party service provider:

- For one sample item, a General Correction transaction was submitted with zeros instead of asterisks in the Contents reserve field. This field must be reported with asterisks to remove the Contents reserve; thus, the Contents reserves remained unchanged, causing reserves to be overstated.
- For four sample items, a Close Loss transaction was not submitted upon issuance of the claim payment, causing reserves to be overstated.
- For two sample items, a Change Reserves transaction was submitted to update the reserves for an advance payment. As advance payments automatically decrease reserves, this transaction double-counted the advance, causing reserves to be understated.
- For one sample item, a transaction was submitted with an incorrect decimal place, causing reserves to be overstated.

Recommendations:

We recommend that FEMA:

- Follow-up with each insurance company identified above to determine that appropriate corrective action has been implemented to address the exceptions identified.
- 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.
- Require WYO companies and the DSA to develop and implement procedures to review transactions prior to submission to the third-party service provider and to ensure such transactions are accurate and submitted timely.

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FEMA – FMC 13-16 – Issues Identified in Journal Voucher Testwork through September 30, 2013
(NFR No. FEMA 13-30)

Based on our JV testwork performed over a sample of 52 JVs as of March 31, 2013, we noted the following exceptions:

- Three JVs 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 fiscal year was proper when the initial entry was recorded.
- One JV was created to address the budgetary impact of a transfer that was not recorded by BPAD; the JV would not have been necessary if the transfer had originally been posted correctly by BPAD.

Based on our JV testwork performed over a sample of 21 JVs as of June 30, 2013, we noted the following exceptions:

- One JV was the auto-reversal of the correcting entry made in the transfer entry noted above; the JV would not have been necessary if the transfer had originally been posted correctly by BPAD.
- Two JVs related to the mandated sequestration and rescissions that took place during FY 2013. These two entries related to a sequence of JVs in which USSGL account 1010 was erroneously credited.

Based on our JV testwork performed over a sample of 26 JVs as of September 30, 2013, we noted the following exceptions:

- One JV was a correction of a previous JV for which only a portion of the JV was automatically reversed, which resulted in the need for a separate JV (the sample item selected) to be manually reversed in a later period. This JV would not have been necessary if the original entry had been properly recorded and reversed.
- One JV recorded the clearing of funds for advances related to canceling funds using USSGL transaction D114, which credits USSGL account 4881, when USSGL account 4871 should have been credited.

Recommendations:

We recommend that FEMA:

- Improve review procedures 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 USSGL accounts are used in the JVs.
- Implement a process to adequately and timely review transactions recorded by BPAD personnel to ensure that budgetary transactions are properly recorded in the general ledger (GL).

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FEMA – FMC 13-17 – Updates and Oversight Needed to Grant Accrual Standard Operating Procedures and Their Implementation (NFR No. FEMA 13-31)

The description of how to reconcile the grant accrual model inputs to the GL in FEMA's *Accounting Accrual – Grants* – [Payment and Reporting System] PARS SOP, issued March 15, 2013, was inaccurate and had not been properly updated to reflect the current process for reconciling inputs to the GL. In addition, FEMA's *Accounting Accrual – Grants – SmartLink* SOP, issued March 14, 2013, did not include documentation disclosing the inclusion of one non-grant Personal Identification Number in the grant accrual model data. These conditions resulted in a control failure related to the March 31, 2013 SmartLink and PARS Accrual Checklist procedure 1, "Perform quarterly review of data extract procedures. Update and document accordingly (update any changes or modifications)."

Based on control testwork performed over the JVs related to FEMA's March 31, 2013 PARS grant accrual model, we noted that for 3 of the 19 items, the JV was not reviewed by a FFC supervisory accountant.

Because of the Government-wide shutdown, FEMA did not prepare the September 30, 2013 PARS accrual model until October 24, 2013. The delay in preparing the accrual resulted in additional grantee expenses being included in the model, which resulted in an artificially high liability balance of \$502.4 million. Although FEMA subsequently re-prepared the model appropriately using only expenses submitted prior to year-end, which resulted in a liability balance of \$290.1 million, the model prepared on October 24, 2013 demonstrated a control failure as PARS Accrual Checklist procedure #3, "Review underlying data to verify accuracy and completeness of data prior to uploading into Grant Accrual Dashboard," was not properly completed.

We recommend that FEMA:

- Update its grant accrual SOPs to reflect current accrual processes.
- 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 accrual.
- Implement appropriate reviews to ensure the accuracy of the grant accrual.

FEMA – FMC 13-18 – Improvements Needed in Management's Review of the Acceptable Variance Ranges (NFR No. FEMA 13-32)

During our review of the March 31 and September 30, 2013 grant accruals, we noted that variances between estimated and actual advances and liabilities that exceeded the Acceptable Variance Range thresholds established by FEMA policies were not adequately addressed related to the SmartLink accrual as of September 30, 2012, and the PARS accruals as of September 30, 2012, December 31, 2012, March 31, 2013, and June 30, 2013.

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Recommendation:

We recommend that FEMA thoroughly review, resolve, and document the resolution of large variances between estimated and actual advances and liabilities, including assessing the reasonableness of the estimation methodology.

FEMA – FMC 13-19 – Untimely Review of SF-224, *Statement of Transactions* (NFR No. FEMA 13-33)

Based on control testwork performed, of the nine SF-224s and Supplemental SF-224s submitted to the Government-wide Accounting system for March 2013, four SF-224 submissions were marked as reviewed on April 3, 2013, one day after submission of the SF-224s on April 2, 2013.

Recommendation:

We recommend that FEMA develop and implement policies and procedures to require supervisory review and approval of the SF-224s prior to submission.

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III. FEDERAL LAW ENFORCEMENT TRAINING CENTERS (FLETC)

FLETC – FMC 13-01 –Controls over Estimated Reimbursable Agreement Amounts (*NFR No. FLETC 13-01*)

During testwork over a sample of three debit reimbursable agreement (RA) transactions for the period October 1, 2012 through September 30, 2013, we identified one sample item where the estimated RA amount, \$184,000, was recorded, and was never adjusted to the actual agreement amount of \$175,000.

Recommendation:

We recommend that FLETC Budget Division implement a formalized management review for signed IAA/RA upon receipt to ensure the estimated RA amounts recorded in the financial system are adjusted to the actual RA amounts.

FLETC – FMC 13-02 –Controls in the Contracts Process (*NFR No. FLETC 13-02*)

During testwork over a sample of six UDO credit transactions for the period October 1, 2012 through September 30, 2013, we identified one sample item where the contract amount recorded in the GL, \$5.15 million, did not agree to the amount on the executed contract, \$6.04 million. The obligation recorded in the GL was limited to the funding that was available on the commitment recorded in the GL. Funding for the entire amount of the executed contract was available, but the commitment recorded in the GL was only for \$5.15 million.

Recommendations:

We recommend that FLETC:

- Procurement Field Branch Chief update contract review process policies and procedures to ensure adequate review of available funding on commitments prior to executing contracts.
- Procurement Division Office disseminate a policy awareness notice division-wide regarding contract specialists' responsibilities.
- Implement training on aligning funds from purchase request to contract document be conducted for contract specialists.

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IV. U.S. CITIZENSHIP AND IMMIGRATION SERVICES (USCIS)

USCIS – FMC 13-01 – Deficiencies in the Public and Confidential Financial Disclosure Reporting Process (NFR No. USCIS 13-01)

During testwork over OGE Form 450, we noted that USCIS did not obtain and review 247 of the 791 required OGE reports by the February 15, 2013 deadline.

During testwork over OGE Form 278, we noted that one report was not reviewed and certified by the Ethics Officer within 60 days of filing.

Recommendation:

We recommend that USCIS make any necessary enhancements to systems and processes to ensure timely notification to and submission by employees of OGE Forms 450 and 278, and submitted forms are reviewed by the Ethics Office in a timely manner.

USCIS – FMC 13-02 – Deficiencies in the Recording, Classification, and Useful Life of Internal Use Software (NFR No. USCIS 13-02)

USCIS was unable to provide a complete GL detail for internal use software (IUS) costs as of June 30, 2013, for substantive testing.

We noted that the Financial Management Division (FMD) performed an analysis of the IUS balance as of July 31, 2013, and posted adjustments related to prior year activity, resulting in a net upward adjustment of \$6.4 million and a net downward adjustment of \$0.3 million.

We performed testwork over additions to the IUS balance as of June 30, 2013 and noted the following errors:

- USCIS did not reclassify \$14.1 million from Software in Development (USSGL 1832) to Internal Use Software (USSGL 1830) timely for one project. USCIS also did not update the useful life for that project in a timely manner. We noted that although management identified that the project's useful life was changed, the useful life in the accounting records was not updated to reflect this change timely.
- USCIS incorrectly reclassified capital costs of \$722,000 from SGL 1830 to SGL 1832 for another project, resulting in a \$182,000 understatement of amortization expense.

We performed testwork over additions to the IUS balance as of September 30, 2013, and noted the following:

- USCIS did not reclassify \$352,000 from SGL 1832 to SGL 1830 timely for one project.
- USCIS did not reclassify \$1.9 million from SGL 1832 to SGL 1830 timely for another project, resulting in a \$53,000 understatement of amortization expense.

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We performed a reconciliation to determine completeness and noted the following: Eight system releases were in-development that were not accounted for by FMD. The budgeted amounts for these projects totaled \$3 million.

Recommendation:

We recommend that USCIS develop and implement, within each office responsible for the management of software development projects operating procedures for:

- Identifying and reporting of capitalizable software development projects prior to the initiation of software development.
- Collecting costs for capitalizable software development projects and timely reporting that information.
- Periodic reviews of the status of capitalizable software both in development and in operation, and the reporting of changes in status.

USCIS – FMC 13-03 – Inadequate Preparation and Review of the Transaction by Elimination Pairs Report (NFR No. USCIS 13-06)

We noted that review of the September 2013 DHS Bureau Intra-Agency Transactions by Elimination Pairs Report was prepared using the August 2013 DHS Bureau Intra-Agency Transactions by Elimination Pairs Report.

Recommendation:

We recommend that USCIS ensure use of the most current information available when reviewing monthly and quarterly checklists.

USCIS – FMC 13-04 – Insufficient Review of Journal Entries (NFR No. USCIS 13-07)

A manual journal entry for Imputed Costs related to OPM Post-Employment Benefits was understated by \$1,893,179. The understatement was caused by a miscalculation due to the omission of the Federal Employees Retirement System - Revised Annuity Employee normal cost from the pension expense calculation.

USCIS proposed an on-top correcting entry for the amount of the error.

Recommendation:

We recommend that USCIS review and update procedures for verifying that calculations for manual journal entries are complete and accurate.

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V. U.S. IMMIGRATION AND CUSTOMS ENFORCEMENT (ICE)

ICE – FMC 13-01 – Unfunded Leave (NFR No. ICE 13-02)

ICE lacked adequate policies and procedures to validate the NFC data used to generate the unfunded leave accrual prior to posting the accrual in the Federal Financial Management System (FFMS).

Recommendation:

We recommend that ICE develop policies and procedures, including supervisory reviews over underlying data used to record the unfunded leave accrual to ensure the accuracy of the accrual.

ICE – FMC 13-02 – Imputed Costs – General Journal Entry (NFR No. ICE 13-03)

Controls were not operating effectively to accurately calculate the imputed costs for pension benefits based on the approved cost factors for calculating imputed costs as determined by the OPM.

Recommendation:

We recommend that ICE enhance controls and procedures to accurately calculate imputed costs for pension benefits based on updated and approved cost factors prior to posting adjustments into the financial system.

ICE – FMC 13-03 – Payroll Accrual (NFR No. ICE 13-04)

Controls were not fully effective to ensure the accuracy of the payroll accrual as of March 31, 2013. Specifically, we noted that the Continuing Resolution impacted the end of month accounting due to the timing of authorization and apportionment.

Recommendation:

We recommend that ICE reinforce existing policies and procedures over the payroll accrual process to ensure consistent application of policies and accuracy of the payroll accrual during continuing resolution periods.

ICE – FMC 13-04 – Untimely Review of Form Office of Government Ethics (OGE)-278 and OGE-450 (NFR No. ICE 13-05)

Controls over the confidential disclosure (OGE – 450) forms were not fully effective:

- We found that one individual selected for testwork separated from the agency prior to the filing period; however, that employee was included on the listing of individuals required to file the OGE-450 form.

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- One individual selected for testwork had not completed the form until the time of testwork. Additionally, we note as of the date of our testwork not all forms had been received by the Office of Ethics.
- One sample item was filed by the individual after the February 15, 2013 deadline.
- For all employees selected for testwork, the supervisor review was completed within the 60 day requirement; however, we noted for 11 employees selected for testwork, the certification by the Office of Ethics was not completed until August 2013. Additionally, at the time of testwork the certification process had not been completed for all FY 2013 forms.

Controls were not effective to ensure review by the Office of Ethics was completed within 30 days of filing by the individual for OGE-278s. Specifically, for two sample items selected we note the certification by the Office of Ethics was not completed within 60 days.

Recommendation:

We recommend that ICE implement a centralized system to identify individuals required to file financial disclosure forms, monitor progress and review of the forms from the filer to the supervisor, and track receipt of the forms in the Office of Ethics.

ICE – FMC 13-05 – Approval of Personnel Actions (NFR No. ICE 13-07)

Controls were not implemented for the entire fiscal year to ensure that proper documentation is maintained to support approval of Career Ladder Promotion personnel actions, prior to the action being processed.

Recommendation:

We recommend that ICE develop and implement controls to ensure proper documentation is maintained supporting approval of each personnel Career Ladder Promotion action.

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VI. INTELLIGENCE & ANALYSIS (I&A) and OPERATIONS (OPS) (MGA)

MGA – FMC 13-01 – Ineffective Monitoring of Undelivered Orders (NFR No. MGA 13-02)

Based on our review of 13 sample items, we noted that for 5 of the 13 UDOs tested, the contract/agreement period of performance had ended and the contract/agreement was no longer valid.

Of the five invalid UDOs identified, we determined two were categorized as a “Status 2”, indicating that management was currently reviewing the obligation, within management’s UDO analysis as of June 30, 2013. However, based on our review of these items, we determined they should have been categorized as a “Status 3”, obligation identified to be deobligated, or a “Status 4”, obligation awaiting close out by another Department within DHS. Therefore, the unused balances for these items were not appropriately identified for de-obligation. As such, we determined that management’s completion and review of the UDO analysis as of June 30, 2013, was not effective.

Additionally, as of June 30, 2013, management determined that the balance for “inactive”/“invalid” UDOs totaled \$60 million. During the fourth quarter, management de-obligated approximately \$16 million and provided the Department with an additional adjustment for approximately \$12 million as of September 30, 2013. We noted that there was a remaining balance of \$32 million that represented invalid UDOs that had not been deobligated or adjusted.

Recommendation:

We recommend that I&A/OPS work with FLETC and the Procurement Office to ensure that an adequate review of obligated balances is performed. To improve this process, I&A/OPS should work with FLETC and the Procurement Office to enhance the existing system of monitoring contracts with periods of performance that are set to expire.

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VII. MANAGEMENT DIRECTORATE (MGT)

MGT – FMC 13-01 – Government Accountability Office Checklist (*NFR No. MGT 13-07*)

Controls were not operating effectively to ensure the responses to the Government Accountability Office (GAO) 2010 Checklist were appropriate based on MGT's operations and financial reporting. Specifically, we noted the following:

- MGT responded "Y" to a question regarding the use of the Consumption Method for operating materials and supplies (OM&S); however, MGT used the Purchase Method for accounting for OM&S.
- MGT did have unearned revenue recorded as a liability for advances and prepayments. As such, the response of "N/A" was not appropriate.
- MGT did have non-exchange revenue recognized on the Statement of Net Position and as such the response of "N/A" was not appropriate.

Recommendation:

We recommend that MGT ensure reviews of the GAO 2010 Checklist are performed completely and effectively to identify errors.

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VIII. NATIONAL PROTECTION AND PROGRAMS DIRECTORATE (NPPD)

NPPD – FMC 13-01 – Time and Attendance (*NFR No. NPPD 13-01*)

The supervisory review controls over employee timesheets was not operating effectively to verify that the hours reflected on the timesheet were accurate. Specifically, we noted one instance in which the employee incorrectly recorded two hours of leave on their timesheet instead of three hours which were approved and taken during the pay period.

Recommendation:

We recommend NPPD develop organization-specific policies and procedures to include detailed reviews of timesheets to ensure time and attendance including leave time is accurately recorded.

NPPD – FMC 13-02 – Approval of Personnel Actions (*NFR No. NPPD 13-02*)

NPPD lacked appropriate policies and procedures to verify that employee data processed for new hires is accurately entered into EmpowHR prior to submission to NFC.

Recommendation:

We recommend that NPPD organization-specific policies and procedures to review employee data entered into EmpowHR to ensure the data is complete and accurate prior to processing to NFC.

NPPD – FMC 13-03 – Review and Approval of Expenses (Intra-Governmental Payment and Collection) (*NFR No. NPPD 13-03*)

Controls were not operating effectively to ensure the COR approval of Intra-Governmental Payment and Collection (IPAC) payments (cash receipts) occurred prior to posting in the GL. Specifically, two samples selected as part of the June 30, 2013, expense testwork were posted to FFMS without the approval of the COR.

Recommendation:

We recommend that the CORs or technical point of contact be involved in all approvals and rejections of IPAC payments prior to the posting of the transaction into the GL. No IPAC transactions should be posted without obtaining the IPAC Payment Authorization Form or email documenting the COR's or technical point of contact's review has occurred.

NPPD – FMC 13-04 – Personnel File Documentation (*NFR No. NPPD 13-06*)

Controls were not operating effectively to ensure that employee benefits were properly supported by available documentation within the employee personnel files. Specifically, we noted the following:

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- Two instances in which the employee was a transfer to NPPD from another agency and the employee personnel file did not include the Thrift Savings Plan (TSP)-1 form. Further, no evidence was provided to indicate the employee made the TSP election electronically directly in their personnel file (via Employee Personnel Page (EPP)).
- One instance in which the employee was a transfer to NPPD from another agency and the employee personnel file did not include the applicable Federal Employees Health Benefits (FEHB) election form. Further, no evidence was provided to indicate the employee made an election electronically directly in their personnel file (via EPP).

Recommendation:

We recommend that NPPD develop organization-specific policies and procedures over employee transfers to ensure appropriate documentation related to employee benefits is maintained and readily available.

NPPD – FMC 13-05 – Documentation of Contracting Officer Warrant Authority (NFR No. NPPD 13-14)

Controls were not operating effectively to ensure that a complete listing of contracting officers, including warrant authority, is maintained and updated on a regular basis.

Recommendation:

We recommend having Office of Special Acquisitions maintain a Warranted Contracting Officer list that is updated on a regular basis.

NPPD – FMC 13-06 – Government Accountability Office Checklist (NFR No. NPPD 13-17)

Controls were not operating effectively to ensure the responses to the GAO 2010 Checklist are appropriate based on NPPD's operations and financial reporting. Specifically, we noted the following:

- NPPD responded "Y" to a question regarding the use of the Consumption Method for OM&S; however, NPPD uses the Purchase Method for accounting for OM&S.
- NPPD answered "Yes" for non-exchange revenue and receivables when NPPD does not report non-exchange revenue or receivables on the Statement of Changes in Net Position.

Recommendation:

We recommend that NPPD ensure reviews of the GAO 2010 Checklist are performed completely and effectively to identify errors.

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IX. OFFICE OF HEALTH AFFAIRS (OHA)

OHA – FMC 13-01 – Undelivered Orders (*NFR No. OHA 13-01*)

Controls were not operating effectively to ensure UDOs were supported by appropriate documentation, and were properly classified as valid or invalid. Specifically, we noted one instance where the UDO was incorrectly assigned a Status 3 (invalid UDO), where it should have been assigned a Status 1 (valid UDO).

Recommendation:

We recommend that OHA reinforce existing policies including training on the various UDO classifications to ensure that UDOs are assigned the correct status when the UDO verification and validation analysis is performed.

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X. SCIENCE AND TECHNOLOGY DIRECTORATE (S&T)

S&T – FMC 13-01 – Untimely Recording of Obligation Activity to the General Ledger (*NFR No. S&T 13-01*)

Controls were not fully effective to ensure obligation activity was recorded timely to the GL upon execution of obligations. Specifically, we noted nine instances in which the transaction was posted to the GL in a subsequent quarter, and ten instances in which the transaction was recorded more than two weeks after the contract execution date.

Recommendation:

We recommend that S&T reinforce existing policies to ensure timely recording of obligation activity.

S&T – FMC 13-02 – Undelivered Orders (*NFR No. S&T 13-02*)

Controls were not operating effectively to ensure UDO activity was supported by appropriate and readily available documentation to verify that UDO activity was valid. Specifically, KPMG noted one instance in which documentation to support UDO activity was not readily available for inspection.

Recommendation:

We recommend that S&T ensure policies and procedures are followed to ensure that UDO supporting documentation is properly maintained, and readily available, to support valid obligations.

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XI. TRANSPORTATION SECURITY ADMINISTRATION (TSA)

TSA – FMC 13-01 – Travel Authorization and Expenditure Support (*NFR No. TSA 13-01*)

As a result of our testwork to ensure that travel authorizations and vouchers were properly approved and coded and recorded into the GL, we noted controls over the travel authorizations were not operating effectively. Specifically, we noted:

- In two instances out of 33, the travel supervisor did not verify expenses incurred were appropriately supported by receipts.
- In five instances out of 33, TSA failed to provide evidence of a three-way match to ensure the travel expenditures incurred were approved by the supervisor prior to travel, were within the amount authorized, and were properly supported by a receipt.

Recommendations:

We recommend that TSA:

- On a monthly basis, audit a sample of travel vouchers to verify expenses are appropriately supported, and notify travelers and supervisors of findings of non-compliance. Non-compliance identified should be tracked through resolution.
- Modify policies related to Centrally Billed Account (CBA) usage. TSA organizations with CBAs should review and modify procedures related to CBA usage and reconciliation to ensure that all CBA transactions have evidence of authorization and supporting receipts are matched to the credit card statement.

TSA – FMC 13-02 – Intra-Governmental Payment and Collection Review Controls and Suspense Clearing (*NFR No. TSA 13-02*)

Documentation supporting the review of all categories of IPAC payments was not maintained. Specifically, we noted in eight instances out of 30, there was no evidence of COR approval for the IPAC.

Controls were not operating effectively to ensure that adequate documentation was maintained to verify that IPAC transactions were appropriately supported and recorded in the GL, including documentation that evidences contract details such as period of performance, contract deliverable requirements, and contract funding sources related to IPAC transactions. Specifically, we noted the following:

- In one instance out of 30, the period of performance was not specified on the Purchase Order and the IPAC.
- In one instance out of 30, a Working Capital Fund invoice was not properly supported by an executed Miscellaneous Obligor Document.
- In one instance out of 30, the invoice amount was improperly short-paid, causing an understatement to expense.

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Controls were not operating effectively to ensure that IPAC related expenses are recorded in the GL timely subsequent to IPAC receipt. Specifically, we noted in one instance out of 30, the IPAC transaction was not recorded in the GL timely.

Controls were not operating effectively to ensure that capitalizable advance/prepayment transactions were appropriately monitored by the respective program office COR, and that inter/intragovernmental advance balances are liquidated timely for financial reporting. Specifically, we identified one instance where an intergovernmental advance was not timely liquidated for financial reporting. We note management identified and corrected this error as of September 30, 2013.

Recommendations:

We recommend that TSA:

- FMD work with the Office of Acquisitions, the Budget and Performance Division and CORs to:
 - Establish requirements for documenting and filing evidence of receipt of goods and services.
 - Continue training and outreach efforts to increase awareness of the IPAC review and process requirements.
- FMD work with Coast Guard Financial Center (FINCEN) and the CORs to confirm all IPACs are properly reviewed and approved per FMD procedures prior to payment.
- FMD review the monitoring process of the recording of IPAC transactions in the GL with validation of timeliness and implement improvement procedures as needed.

TSA – FMC 13-03 – Lease Accounting and Disclosure (NFR No. TSA 13-03)

Controls over the Master Lease Listing maintained by Chief Administrative Office (CAO) were not operating effectively to ensure leases are appropriately classified as cancellable versus non-cancellable. Specifically, we noted the following:

- Two instances where the lease was incorrectly classified as cancellable in the prior year.
- Three instances where the lease was incorrectly classified as cancellable as of March 31, 2013. Additionally, we noted one instance where the lease was incorrectly classified as non-cancellable as of March 31, 2013.

Controls over the Master Lease Listing maintained by CAO are not designed effectively to ensure supporting documentation (e.g. updated lease agreement) is received timely by FMD to update the schedule of leases to ensure the completeness and accuracy of information used for financial reporting purposes. Specifically, we noted the following:

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Interim testwork (performed as of March 31, 2013)

- Four instances where the occupancy agreements were executed prior to FY 2013; however, were not included in the FMD schedule of leases until FY 2013.
- Two instances where the occupancy agreements were expired prior to FY 2013; however, were not removed from the FMD schedule of leases until FY 2013.
- One instance where the occupancy agreement had rent escalations but was improperly classified as not having rent escalations.
- One instance where a non-cancellable occupancy agreement was designated as cancelled per CAO; however, was active as of March 31, 2013.

Final testwork (performed as of September 30, 2013)

- 11 instances where occupancy agreements, and two instances where direct leases were not fully executed, but were improperly included in the FMD schedule of leases as of March 31, 2013.
- One instance where a direct lease was executed prior to March 31, 2013; however, was not included on the FMD schedule of leases until September 30, 2013.
- One instance where the lease term was incorrectly classified. As a result, the future minimum lease payments disclosure is overstated as of September 30, 2013.

Recommendations:

We recommend that TSA:

- CAO inventory the database supporting the Master Lease Listing (MLL database) and validate all current leases for proper classification of cancellable vs. non-cancellable.
- CAO continue to develop written policies and procedures to ensure:
 - All new leases and occupancy agreements (OA) are evaluated for financial reporting impact, including: cancellable vs. non-cancellable; capital vs. operating; lease term, beginning and end dates; and lease status (active, expired, canceled, holdovers)
 - The MLL database is updated for formally executed changes affecting financial reporting in the month in which the changes occur.
 - Updated lease and OAs documents are uploaded to the SharePoint as support for formally executed changes made to the MLL database.
 - Controls are in place for proper review, validation, and approval of changes made to the MLL database. Validation should include verifying that the proper lease or OA document exists on SharePoint. A standard checklist should be used to verify all financial reporting factors have been validated prior to approval of changes.
 - The current GSA OA number, including GSA version, is maintained in the MLL database to match GSA OAs to active OAs included in the MLL database.
- FMD Internal Control Branch (ICB) perform periodic reviews to ensure design and operating effectiveness of CAO's revised Master Lease Listing policies and procedures for financial reporting completeness and accuracy of TSA lease data.
- CAO implement a commercial real property management system that is interfaced with TSA's financial management system. CAO should work with FMD (including their ICB) to

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develop and update procedures to ensure appropriate management of TSA's real property portfolio.

- CAO assign a dedicated lease reporting coordinator to work with Portfolio Managers, and other lease personnel, to ensure the MLL database is updated timely and accurately in support of TSA's completeness assertion.

TSA – FMC 13-04 – Ineffective Controls over the Time and Attendance Process at Airports and Federal Air Marshall Facilities (*NFR No. TSA 13-04*)

During our FY 2013 site visits to airports, we noted that controls over time and attendance were not fully effective at the airports. We noted the following:

- Controls over the review and approval of timesheets are not operating effectively. Specifically, we noted:
 - Lack of evidence of timely supervisor review and approval of timesheets and additional supporting documentation (14 instances):
 - Two instances out of 65 where overtime requests were not approved prior to the employee working the overtime hours.
 - Four instances out of 65 where leave request approval documents (OPM-71 forms) could not be provided.
 - Two instances out of 65 where the employee timesheet was not timely reviewed and signed in support of hours worked.
 - Five instances out of 65 where leave was taken prior to supervisor approval.
 - One instance out of 65 where the employee was paid for 0.5 hour of unauthorized time worked.
 - Lack of policies and procedures to ensure consistent application of time and attendance review requirements at airports utilizing the Electronic Time and Attendance System (eTAS).

During our FY 2013 site visits to Federal Air Marshalls facilities, we noted that controls over time and attendance were not fully effective. We noted the following:

- Controls over the review and approval of timesheets were not operating effectively. Specifically, we noted:
 - Lack of evidence of timely supervisory review and approval of timesheets and additional supporting documentation (one instance):
 - One instance out of 48 where leave was taken prior to supervisor approval.

Recommendations:

We recommend that TSA:

- Develop and provide information and guidance on the governing policies for leave and overtime approvals and procedures for the use of eTAS.
- Remove the outdated Time and Attendance manual and replace it with up-to-date job aids addressing proper time and attendance recordation.

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- Conduct monthly meetings with the payroll user community to gather concerns and issues and to provide training focusing awareness on maintaining effective controls over time and attendance processes and proper time and attendance recordation.
- Provide guidance on the governing policy for appropriate OPM-71 document retention.

TSA – FMC 13-05 – Inadequate Review of Personnel Actions (NFR No. TSA 13-05)

Controls over review of personnel actions were not fully effective. Specifically, we noted two instances out of 45 where the EmpowHR Personnel Action Request was prepared and reviewed by the same person. We noted proper segregation of duties and adequate review did not exist in these instances.

Recommendations:

We recommend that TSA:

- Provide oversight to ensure that the service provider follows standard operating procedures, PER-031, HRSC Processing of New Hire Personnel Actions in EmpowHR, which indicates that the process and quality assurance (QA) roles are separate and distinct roles in the process.
- Continue oversight of the service provider's QA review of personnel actions to ensure it is operating effectively and in accordance with the Federal regulations, policies, and internal guidelines.

TSA – FMC 13-06 – Non-Compliance with the Debt Collection Improvement Act of 1996 (NFR No. TSA 13-06)

During FY 2013, TSA revised its internal standard operating procedure manual (ISOP) to ensure compliance with Debt Collection Improvement Act (DCIA) of 1996. Although an ISOP had been adopted and approved, the ISOP had not been in effect for the entire period sampled, and therefore could not ensure full compliance with the provisions of DCIA for FY 2013.

Additionally, we noted the following:

- For five of 58 sample items selected, demand letters were not sent to the debtor in a timely fashion.
- As a result of these demand letters not being issued timely, we noted four instances of non-compliance regarding timely referral to Treasury.

Recommendations:

We recommend that TSA:

- Perform a thorough gap analysis of current processes and new service provider processes and system to streamline and automate existing manual processes.
 - To the extent possible, utilize the integration offered by the new service provider system through the use of the subsidiary system to minimize manual processes and reconciliations.

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- Revenue office review ISOP for continued compliance.
- Revenue office review DCIA for continued compliance.

TSA – FMC 13-07 – Controls over Internal Use Software (NFR No. TSA 13-07)

TSA lacked effective controls at the program office level to ensure capitalizable IUS transactions were properly supported, documented and communicated timely for recording in the GL.

Specifically, we noted:

- For two of the projects tested at interim, program managers were not able to provide sufficient support for cost capitalization criteria.
- For three of the projects tested at final, program managers were not able to provide sufficient support for cost capitalization criteria.
- One instance in which the program manager did not report cost estimates for services that had been performed but not yet invoiced by the vendor, resulting in prior period errors related to costs that should have been capitalized as of September 30, 2012.

Controls were not operating effectively to ensure that IUS phase shifts were communicated timely for financial reporting. We noted one instance where project enhancements were not transferred to the amortizable IUS account (USSGL 1830) timely based on the release deployment date.

Controls were not operating effectively to ensure project impairment checklists were completed timely by program managers for financial reporting considerations. We noted one instance where the project impairment checklist was not signed timely.

Controls were not operating effectively, when applying alternative valuation methodologies, to ensure that management appropriately:

- Quantified the impact to all relevant financial statement items of assumptions deemed to be immaterial.
- Maintained sufficient documentation to support subject matter expert (SME) cost capitalization allocations, particularly when allocations are not discernible from the contract/statement of work.
- Considered prior period impact of the methodology.

Recommendations:

We recommend that TSA:

- Chief Financial Officer work with the Office of Acquisitions and program offices to obtain and document the IUS data item description at the time of invoicing. This requirement should be implemented for all existing contracts that have IUS, and all future contracts that could potentially result in IUS.
- Office of Acquisition obtain the IUS data item description for all new contracts where software is developed or licenses are purchased (when included in the purchase requisition

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- package). Also, obtain IUS data item description on contracts for the largest IUS programs (those with a net book value greater than \$5 million).
- Program offices submit impairment checklists quarterly to FMD in addition to submitting the impairment checklist in the month the actual impairment occurs.
 - FMD review and update existing policies and procedures to improve the management review and approval process to ensure cost is properly supported, the review/approval of phase shifts in programs is documented, and the review of completed impairment checklists.
 - FMD perform an assessment of OASIS Cohort program to address approach and methodology for applying alternative methodology assessment considering:
 - Documenting the prior period impact in adopting new methodology.
 - Documenting the criteria for establishing alternative methodology, programs benefitted for the program and basis for capitalization.
 - Quantifying the impact to all relevant financial statement items of assumptions deemed to be immaterial; including developing test for reasonableness and documented criteria for capitalization and useful life.
 - Establishing procedures and methodology to maintain sufficient documentation to support SME cost capitalization allocations, particularly when allocations are not discernible from the contract/statement of work.
 - Developing and publishing procedures related to establishing and maintaining an alternative assessment methodology for IUS.
 - Testing results quarterly to ensure consistency in applying methodology and adequacy of supporting documentation.

TSA – FMC 13-08 – Undelivered Orders Controls – Validation and Verification (NFR No. TSA 13-09)

TSA's policies and procedures were not designed effectively to ensure liquidation of remaining stale obligation balances is completed timely. Specifically:

- During our interim UDO verification and validation control testwork, we noted five instances in which the liquidation of the remaining funding was not completed timely based on the contract period of performance expiration date.
- During our final UDO validity and recoveries of prior year unpaid obligations substantive testwork, we noted four instances in which the liquidation of the remaining funding was not completed timely based on the contract period of performance expiration date.

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Recommendation:

We recommend that TSA:

- Office of Acquisition lead an organization wide assessment, in conjunction with other stakeholders, of the procedures and training required to implement a timely closeout process for TSA. This assessment can include the following interim steps:
 - Office of Acquisition and Office of Finance and Administration (FMD and Budget and Performance Division) to identify possible improvements to incentive programs to closeout contracts timely.
 - Provide training and guidelines to COR community for the initiation of timely closeout.

TSA – FMC 13-09 – Property, Plant, and Equipment Controls (*NFR No. TSA 13-10*)

TSA lacked fully effective preventative controls to ensure that capitalizable transactions are recorded in the GL timely and at the proper cost. We noted detective controls at the FMD level were relied upon to ensure complete and accurate financial reporting as of year-end. Specifically, we noted:

- Existing controls were not operating effectively at the program office level to ensure that the full cost is entered into Sunflower Asset Management System. We noted one instance where a prior period error was not detected and corrected until April of the current year.
- Existing controls were not operating effectively at the program office level to ensure the proper documentation is available for assets to be timely reviewed and approved for addition into Fixed Asset (FA) Module. Specifically, we noted one asset was not approved for addition into FA until two months after TSA took ownership of the asset.
- Existing controls were not operating effectively to ensure that capitalizable costs related to Transportation Security Equipment (TSE) are completely and accurately recorded. Specifically, we noted:
 - Five upgrade kits for which the unit cost exceeded the capitalization threshold but was not included in the TSE capitalized balance.
 - Six transferred assets were not recorded appropriately at either the net book value (NBV) of the transferring agency or asset fair market value on the date of transfer.

Controls were not operating effectively to document the quantification of the impact of managerial decisions to not capitalize certain other direct costs (ODCs).

Controls were not operating effectively to ensure that sufficient, appropriate documentation is maintained to support the completeness and accuracy of the year-end TSE accounts payable accrual. Specifically, while no significant discrepancies were identified, we noted that deviations from third-party vendor confirmations were not properly reconciled to supporting documentation to demonstrate that an accrual was not necessary.

Controls to verify that the complete TSE balance is reviewed on an annual basis for impairment considerations were not designed effectively to ensure that (a) checklists are sent

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to the Office of Security Capabilities for all manufacturers/models of TSE or (b) that the determination made to not send checklists is sufficiently documented (e.g. remaining NBV is inconsequential).

Recommendations:

We recommend that TSA:

- Work with the Office of Acquisitions to ensure all contracts for purchased equipment require TSA Form 251, *Vendor Shipping and Receiving Report*.
- Perform an analysis to document capitalization decisions that differ from standard capitalization determinations.
- Review and utilize the TSALC reports as a completeness step to ensure that upgrades are properly tracked and recorded.
- Program offices that purchase equipment provide the actual cost to be recorded in Sunflower in the month the equipment passes factory acceptance testing for TSE, and for non-TSE in the month the equipment was acquired and placed in service.

TSA – FMC 13-10 – Gross Cost Deficiencies (NFR No. TSA 13-11)

TSA lacked fully effective controls to ensure all capitalizable transactions are recorded timely in the GL. Specifically, we noted:

- TSA lacked policies and procedures to reconcile transactions that have been cleared as expense in USSGL account 1890 to the results of other process level reviews used to identify capitalizable transactions to ensure that the transactions have been properly capitalized and recorded timely in the GL. We noted one instance where expenses recorded through the USSGL account 1890 clearing process for capitalizable IT equipment were not applied to assets timely.
- While controls were designed and operating effectively to analyze transactions at year-end during manual review processes that result in re-classifications of account balances, TSA lacked documented policies and procedures to analyze and assess the financial reporting impact of gap periods at quarter-ends for such processes. We noted:
 - Two invoices for which an advance was properly identified but not recorded timely in the proper quarterly reporting period.
 - One invoice for which an ODC was properly identified but not recorded timely in the proper quarterly reporting period.

Controls were not operating effectively at the program office level to ensure transactions are recorded using the proper object class code. We noted three instances out of 118 where the object class for the transaction line item was coded incorrectly.

Controls were not operating effectively at the program level to ensure vendor type for transactions are properly coded as NONGOV or OSDOT. Specifically, we noted 71

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instances in which a Federal vendor, primarily related to one vendor, was improperly coded as NONGOV.

Recommendations:

We recommend that TSA:

- Continue to execute the compensating controls in place to minimize the likelihood of material errors in the USSGL account 1890, including reviews several times a year through the management control objective plans implemented in the Property Plant and Equipment Accounting Branch.
- Update the ISOP for Advances and Prepayments to include procedures to analyze and assess the financial reporting impact of gap periods at quarter-end. TSA should implement the procedures outlined in the memorandum for the record titled "*Accounting for Prepayments at 2013 Fiscal Year-End*," signed October 23, 2013, for all future March 31, June 30, and September 30 reporting periods. Specifically;
 - Adjust the formula used to calculate the liquidation of prepayments to be current for the reporting period.
 - Review and substantiate contract and purchase order obligations posted to the GL during the reporting period for prepayments.
 - Perform invoice validation for potential prepayments.
 - Record a TIER entry if validated prepayments exceed documented thresholds.
- Update the ISOP for ODCs to include procedures to analyze and assess the financial reporting impact of gap periods at quarter-end. Year-end procedures exist, but procedures for March 31 and June 30 reporting should be implemented as follows:
 - Determine the amount of ODCs identified in invoices processed in the financial system during the gap period of the reporting period. TSA should follow the normal invoice review procedures for this period.
 - Record this amount in a TIER entry. The amount should then be included in the following month's GL journal entry.
- Work with FINCEN to correct the vendor type.
- Review security, controls, and set-up of the vendor table during the requirements phase of the transition to the new financial system.
- FMD provide training to Business Managers and COR's on use of object class codes to include providing list of frequently used object class codes.
- FMD develop metrics utilizing results from PO review to track object class code errors impacting financial reporting.

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TSA – FMC 13-11 – Review of Manual Adjustments (Journal Vouchers and TIER Adjustments)
(NFR No. TSA 13-12)

Controls related to journal entry reviews were not fully effective during the current year. Specifically we noted:

- One sample item out of 25 that was recorded for the incorrect amount.
- One sample item out of 25 that was recorded to the incorrect line of accounting.

Recommendations:

We recommend TSA:

- Ensure that Journal Entry and TIER adjustment preparers and reviewers follow stated procedures for review and approval.
- Branch Chiefs train their staff on all applicable accounting standards and procedures for their areas of responsibility. This training should include where and how the staff are to obtain all the required elements of a JV.

TSA – FMC 13-12 – Contract Administration (NFR No. TSA 13-13)

Controls were not operating effectively to ensure contracts are effectively administered, including executing modifications timely to extend contract periods of performance (POP) when services are still actively being received from the vendor. Specifically, in our testwork performed over UDOs, we noted the following:

- Two obligations for which the contract POP had expired and a contract modification was not executed to extend the POP.
- One obligation for which the contract POP had been extended, but the contract modification was not properly approved by a contracting officer prior to execution.

Recommendations:

We recommend that TSA:

- Office of Acquisitions review existing policies, procedures, and Federal Acquisition Regulations guidance related to invoicing instructions. Determine if changes to invoicing requirements are needed and when they should be applied.
- Office of Acquisitions review existing policies and procedures related to contract period of performance extensions. Determine if changes to documentation or training are needed. Provide guidance to contracting officers regarding processing extensions prior to the POP ending.

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TSA – FMC 13-13 – Adjustments to Prior Year Obligations (NFR No. TSA 13-14)

Controls were not operating effectively to ensure upward and downward adjustments are properly and timely reviewed and correctly recorded. Specifically, in our testwork performed over UDOs, we noted the following:

- Two instances where downward adjustments of prior year unpaid UDOs were not recorded timely, as recoveries, based on the de-obligating document date.
- Two instances where upward adjustments of prior year UDOs were not recorded timely, based on the obligating document date.

Controls were not fully implemented throughout FY 2013 to ensure obligations of expired authority are properly reviewed and approved to verify that the use of expired funds is appropriate, prior to recording as an upward adjustment.

Recommendations:

We recommend that TSA:

- Establish controls to prevent the use of prior year budget lines of accounting for new obligations and commitments.
- Establish a process that includes Budget and Performance Division review and certification if the use of prior budget year lines of accounting is requested.

TSA – FMC 13-14 – Entity Level Controls (NFR No. TSA 13-15)

Entity-level controls were not fully effective throughout FY 2013. We noted:

- TSA lacked a documented policy requiring FMD employees to complete technical training in accounting related subjects to ensure compliance with the curriculum.
- TSA lacked effective controls to ensure performance reviews are signed off timely. Specifically, we noted eight instances out of 15 where there was insufficient evidence to support why the initial performance plan goal setting was not performed timely.

Recommendations:

We recommend that TSA:

- Continue implementing its training curriculum guide to foster employees' individual and career development. Additionally, individual and career development should be addressed in performance plans.
- Ensure compliance with Enterprise Performance Management Platform performance plan deadlines:
 - FY 2014 performance plans should be in place by January 31, 2014.
 - New hire plans should be in place within 30 days of their entry on duty.
 - Completion of mid-cycle performance assessments by the date specified by the Office of Human Capital.

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TSA – FMC 13-15 – Imputed Costs (NFR No. TSA 13-16)

Controls were not fully effective to ensure completeness of imputed costs for FY 2013.

Recommendations:

We recommend that TSA:

- Work with OCC to create and maintain a list of all cases submitted to the Judgment Fund and track each case's status against the Judgment Fund reports.
- Run the Judgment Fund reports for all months in which cases have been submitted to ensure they capture the whole population of payments each fiscal year.

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XII. U.S. COAST GUARD (USCG or Coast Guard)

USCG – FMC 13-01 – Civilian Payroll and Human Resources (*NFR No. USCG 13-05*)

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

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

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

Recommendations:

We recommend that Coast Guard:

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

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

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

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

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Recommendation:

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

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

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

Recommendation:

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

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XIII. U.S. SECRET SERVICE (USSS)

USSS – FMC 13-01 – Controls over Counterfeit Evidence Destructions (*NFR No. USSS 13-01*)

We conducted site visits to four USSS field offices. At one site, two months of Not-in-Evidence Notes designated as destroyed on a FY 2013 certificate of destruction remained in the vault. Additionally, the Counterfeit Tracking Application system had been updated to reflect the entire destruction.

Recommendation:

We recommend that the USSS notify and remind all offices through correspondence that a policy for Certificate of Destruction and/or Disposition is in place in the Investigative Manual to include accountability procedures for the evidence until it is destroyed.

USSS – FMC 13-02 – Human Resource Compliance Controls (*NFR No. USSS 13-02*)

During testwork performed over a sample of 20 employee personnel actions (SF-52s), three instances were identified in which the quality review and approval for the personnel action was not completed prior to the submission of the pay period payroll data file to USDA NFC.

During testwork performed over a sample of 40 employee time cards, the following conditions related to review and approval of annual and sick leave were identified:

- One instance in which an employee time card was approved by the supervisor; however, the status of the leave request for the leave taken during the period was “pending.” A corrected time card was not submitted in order to update the status of the leave request to approved.
- One instance in which an employee time card was approved by the supervisor; however, the employees’ approved leave for the pay period did not agree to the hours entered on the time card. A corrected time card was not submitted in order to correct this discrepancy.
- One instance in which an employees’ request for sick leave was approved subsequent to the end of the pay period.

Recommendation:

We recommend that USSS communicate noted errors and issue guidance on how to correct these errors in webTA; as well as emphasize to managers on the appropriate procedures for approving, disapproving, and correcting previously approved leave submissions.

USSS – FMC 13-03 – Funds Management Controls and Supporting Documentation (*NFR No. USSS 13-03*)

Controls over the quarterly review of prior year obligations were not operating effectively to ensure all obligations were subject to the quarterly review process. Specifically, we noted three instances in which obligations selected for testwork were not subject to the review.

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During testwork over UDOs as of June 30, 2013 and September 30, 2013, we reviewed a sample of nine UDO balances and nine lines of activity and identified untimely obligation and deobligation of UDOs. Specifically, we noted the following:

- One instance in which the period of performance on the contract expired September 30, 2010 and the funds had not been deobligated.
- One instance in which the contract to add FY 2013 funding to the obligation was not executed prior to the receipt of services. The related invoice was direct disbursed, reversed and then applied to the obligation. The contract was executed May 20, 2013; however, the period of performance for the obligation began April 1, 2013 and the invoice service period was March 27, 2013.
- One instance in which the contract was not executed and recorded in the GL prior to the start of the POP. The contract POP began on October 1, 2012, and the contract was not executed and recorded in the GL until July 12, 2013.

During testwork over operating expense type transactions as of June 30, 2013, we reviewed a sample of 40 transactions and identified the following deficiencies related to untimely goods receipt and improper direct disbursement of expenditures:

- Two instances in which unpaid goods and services were provided prior to September 30, 2012; however, the expenses were not included in the September 30, 2012 accounts payable accrual due to delays in processing the goods receipts in the financial reporting system.
- Two instances in which invoices for recurring monthly payments with Federal Protective Service and General Services Administration (GSA) were recorded as direct disbursements, and the related obligations had not been executed. Recurring monthly payments are to be matched to obligations.

Recommendations:

We recommend that USSS:

- Review UDOs at least once a quarter and require timely follow up and review by FMD.
- Ensure that no work begins prior to the period of performance of a contract or after the period of performance has expired. In instances where the period of performance of the provided service is outside the period of performance of the contract, the purchase must be handled as an unauthorized obligation and ratified.
- Remind offices of policies regarding the recording of receipts, specifically that receipts should be recorded in TOPS at the time the goods and services are received rather than when the invoice is received.
- Review and update policies and procedures related to establishing obligations to ensure that invoices that are required to be matched to a purchase order are not paid via direct disbursement.

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USSS – FMC 13-04 – Lease Future Minimum Commitments Footnote Disclosure (NFR No. USSS 13-06)

Controls over the preparation and review of the lease footnote disclosure were not designed properly. USSS estimated future minimum lease payments based on current year lease expense for all leases (including cancelable leases) instead of tracking leases per the DHS Component Requirements Guide requirements.

During testing over a sample of 15 leases, 14 of the leases selected for testwork were cancelable and should not have been included in the lease footnote disclosure. This resulted in a material overstatement of the future minimum lease payments.

Recommendations:

We recommend that USSS:

- Update the footnote preparation process to include receiving updated non-cancelable lease information on a quarterly basis.
- Maintain a payment schedule, reflecting total amounts of fiscal year projected payments per the non-cancelable lease contracts, within the Financial Statements Branch. This payment information should be reported on the USSS Leases Footnote as per guidance from the Office of Management and Budget (OMB) Circular No. A-136 Section 3 Financial Section – Notes to the Financial Statements, Note 18 Leases, Part A.

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XIV. OFFICE OF FINANCIAL MANAGEMENT (OFM)

OFM – FMC 13-01 – Departmental Standards of Conduct (*NFR No. OFM 13-01*)

During our test work over entity-level controls, we noted that DHS had not issued a Supplemental Standards of Conduct. Although not required, the Department, with the concurrence of the OGE, has determined the need for and developed a Supplemental Standards of Ethical Conduct for Employees of the Department of Homeland Security, which was published as a proposed rule in the Federal Register for public comment on October 12, 2011.

The proposed regulations would supplement the OGE Standards of Ethical Conduct for Employees of the Executive Branch, and would, among other things, set forth employee restrictions on the purchase of certain Government-owned property, require employees to report allegations of waste, fraud and abuse, require employees to seek prior approval for certain outside employment and activities, and designate components within DHS as a separate agency for purposes of determining whether the donor of a gift is a prohibited source. The comment period for the proposed rule ended on December 12, 2011.

Recommendation:

We recommend that the Designated Agency Ethics Official (DAEO) complete and issue a final rule, as planned.

OFM – FMC 13-02 – Non-Compliance with Financial Disclosure Filing Requirements and Insufficient Departmental Guidance (*NFR No. OFM 13-02*)

During test work over financial disclosure reports at the headquarters Office of Ethics, we identified the following exceptions:

- OGE 278 Forms: For one of the 25 samples tested, the filer did not submit the financial disclosure form on time in accordance with OGE filing requirements. Additionally, the form was not submitted within the 30 day grace period.
- OGE 450 Forms: For three of the 45 samples tested, the filers did not submit the financial disclosure forms on time in accordance with the OGE filing requirements. Additionally, the forms were not submitted within the 30 day grace period.

During our review of the Department of Homeland Security Financial Disclosure Reporting Policy, we noted that the policy does not include language regarding the Department's policy for providing a 30 day grace period for OGE 450 filers. The CFR specifically provides a 30 day grace period for OGE 278 filers, but does not specify a grace period for OGE-450 filers.

We noted that the DAEO has established a program to periodically review component procedures and implementation of the financial disclosure reporting program as required by the Financial Disclosure Reporting Policy. However, not all components had submitted their implementing instructions to the DAEO for review and approval as required under the Financial Disclosure

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Reporting Policy. Consequently, the HQ Ethics Office program reviewers were unable to assess compliance with DAEO-approved procedures.

During testwork over financial disclosure forms at six components, five component audit teams identified findings related to the component financial disclosure processes, such as untimely submission and review, and lack of understanding of filing requirements.

Recommendations:

We recommend that DHS:

- Continue to work with employees to ensure they meet required financial disclosure filing deadlines and requirements.
- Update the Department of Homeland Security Financial Disclosure Reporting Policy to include language regarding the Department's policy for providing a 30 day grace period for OGE 450 filers, in order to clarify the filing date requirements per 5 CFR.
- Ethics Office continue to track and notify individual filers of due dates, notify them if and when their reports are overdue, and notify component management of delinquencies so that appropriate measures may be taken to compel compliance.
- Ethics Office also work with component ethics offices to ensure they establish and implement policies and procedures over their financial disclosure reporting program as required by Departmental policy.
- Headquarters Ethics Division continue conducting assist visits for three additional operating components. The assist visits are planned to continue on a rotating cycle. This program, which has written protocols for on-site review and evaluation of component ethics programs, includes follow up after action assessment of program strengths and weaknesses of operational component ethics programs, identification of best practices and recommendations for program improvements.

OFM – FMC 13-03 – Non-Compliance with Federal Employees' Health Benefits (NFR No. OFM 13-05)

USCG's controls over FEHB for civilian employees were not fully effective during FY 2013 to ensure that FEHB contributions are paid in accordance with employee elections. Specifically, during testwork over compliance with various Human Resource laws and regulations, we noted that for one USCG sample of the 64 samples tested on a Department-wide basis, FEHB payments were not properly paid. We noted the USCG employee transferred to USCG from another Federal agency. Upon transfer, USCG did not input the employee's FEHB election information into the payroll system. As such, no payments were made into the FEHB program on behalf of the employee or employer (USCG) for 24 pay periods, resulting in \$9,000 of unpaid employer contributions. Upon recognition of the issue, USCG attempted to make a correcting contribution; however, a clerical error resulted in an actual amount contributed of \$93,000. (See also USCG-FMC-13-01)

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Recommendations:

We recommend that Coast Guard:

- Human Resources operations staff develop a more robust civilian HR review process that incorporates a Payroll Processing Checklist (including Federal benefit information/forms) to ensure the timely input and verification of entry on duty document processing in applicable HR systems.
- Budget staff modify its SOPs to include a more detailed level review of the payroll accounting system files in addition to the aggregate/object class review that was in place in FY 2013.

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Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
CBP	13-01	<i>Number not used</i>	Not applicable			
CBP	13-02	Weaknesses in CBP's Process Related to Asset Additions as of April 30, 2013	C			
CBP	13-03	Weaknesses in CBP's Process Related to Asset Disposals as of April 30, 2013	C			
CBP	13-03b	Weaknesses in CBP's Process Related to Asset Disposals as of September 30, 2013	C			
CBP	13-04	Improper Settlement of Assets, Including Untimely Capitalization of Assets from Construction in Progress as of April 30, 2013	C			
CBP	13-04b	Improper Review of Construction in Progress Projects as of September 30, 2013	C			
CBP	13-05	Detection of Excessive Drawback Claims		H		
CBP	13-06	Insufficient Retention Period for Documents that Support Drawback Claims		H		
CBP	13-07	Automated Commercial System Deficiency over the Accumulation of Accelerated Payments Against a Drawback Bond				13-01
CBP	13-08	Weaknesses in the Recognition of Goods and Services Received as of March 31, 2013				13-02
CBP	13-09	Weaknesses in CBP's Review of Fund Balance with Treasury				13-03
CBP	13-10	Deficiencies in the Public and Confidential Financial Disclosure Reporting Process				13-04
CBP	13-11	Deficiencies in the Completeness and Existence of Property, Plant, and Equipment	C			
CBP	13-12	Deficiencies in the Performance Management Program				13-05
CBP	13-13	Weaknesses Identified in the Bonded Warehouse and Foreign Trade Zone Processes and Procedures		H		
CBP	13-14	<i>Number not used</i>	Not applicable			
CBP	13-15	Deficiencies in the In-Bond Process		H		
CBP	13-16	Weaknesses in the Review of Entry Edit/Exception Reports				13-06
CBP	13-17	Weaknesses in Controls over the Bond Sufficiency Review Process		H		
CBP	13-18	Automated Commercial System Limitations – Review of Prior Related Drawback Claims and Selectivity for Underlying Consumption Entry Summaries		H		
CBP	13-19	Weaknesses in the Trade Compliance Measurement Program				13-07
CBP	13-20	Lack of Implementation of Controls over Determining Classification of Leases				13-08
CBP	13-21	Improper Review and Untimely Deobligation of Undelivered Orders				13-09
CBP	13-22	Federal Financial Management Improvement Act of 1996			J	

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			IAR			FMC
			MW	SD	NC	No.
CBP	13-23	Weaknesses in Controls over Customs-Trade Partnership Against Terrorism Benefits				13-10
CBP	13-24	Deficiencies in the Seized Inventory Process				13-11
CBP	13-25	Deficiencies in the Control Environment Surrounding the Use of Reimbursable Work Authorizations				13-12
CBP	13-26	<i>Number not used</i>	Not applicable			
CBP	13-27	Deficiencies in Tracking Leases				13-13
CBP	13-28	Lack of Retrospective Review over Estimates				13-14
CBP	13-29	Deficiencies in the Inventory and Related Property Process				13-15
CBP	13-30	Deficiencies in the Review of Adjusting Journal Entries				13-16
CBP	13-31	Insufficient Review of Apportionment Categories				13-17
CBP	13-32	Lack of Consideration for Deferred Revenue Related to Puerto Rico				13-18
FEMA	13-01	Inability to Link Systems to Significant Grant Programs				13-01
FEMA	13-02	Lack of Management Review Control for the Annual Subsidy Re-Estimate Calculation				13-02
FEMA	13-03	Insufficient Communication to Employees of the Department of Homeland Security Office of Inspector General Hotline and Code of Conduct				13-03
FEMA	13-04	Deficiencies in the Monthly Budget Execution Reviews				13-04
FEMA	13-05	Lack of Oversight by the National Flood Insurance Program (NFIP) Standards Committee				13-05
FEMA	13-06	Deficiencies Related to the Public Disclosure Filing Process				13-06
FEMA	13-07	Internal Control Deficiencies Identified over Claims Paid at Selected Insurance Companies that Participate in FEMA's NFIP as of March 31, 2013				13-07
FEMA	13-08	Internal Control Deficiencies Identified over Premiums Written by FEMA's NFIP				13-08
FEMA	13-08a	Internal Control Deficiencies Identified over Premiums Written by FEMA's NFIP as of August 31, 2013				13-08
FEMA	13-09	Ineffective Controls over Tracking Grants Eligible for Close-Out		G		
FEMA	13-10	Failure to Recertify Policies and Procedures in Various Areas		E		
FEMA	13-11	Non-Compliance with 5 Code of Federal Regulations (CFR) Part 2634 and 5 CFR Part 2638 Related to Ethics Requirements				13-09
FEMA	13-12	Ineffective Controls Related to Monitoring Undelivered Orders	D			
FEMA	13-13	Ineffective Controls over Procurement Obligations and Deobligations and Non-Compliance with the Federal Acquisition Regulation (FAR)	D			

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Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
FEMA	13-14	Untimely Deobligation of Undelivered Orders	D			
FEMA	13-15	Deficiencies in Policies and Procedures over Updating Loss Reserves at Insurance Companies that Participate in FEMA's NFIP				13-10
FEMA	13-16	Deficiency in the Travel Obligation Process at the Mississippi Recovery Office	D			
FEMA	13-17	Ineffective Controls over the Recording of Funding Transactions	D			
FEMA	13-18	Deficiencies in the Monthly SF-132 to SF-133 Reconciliation Review Process	D			
FEMA	13-19	Ineffective Controls over Intergovernmental Activity Deobligations and Payments	D			
FEMA	13-20	Monitoring of Audit Findings in Accordance with OMB Circular No. A-133		G	K	
FEMA	13-21	Ineffective Controls over Grants		G		
FEMA	13-22	Improper Processing of Undelivered Orders	D			
FEMA	13-23	Ineffective Controls over Grant Obligations, Deobligations, Payments, and Monitoring Efforts, and Non-Compliance with Cash Management Improvement Act		G		
FEMA	13-24	Non-Compliance with the Federal Financial Management Improvement Act of 1996			J	
FEMA	13-25	Deficiencies Identified in the Integrated Financial Management System Chart of Accounts and Transaction Codes				13-11
FEMA	13-26	Ineffective Controls over Intergovernmental Advances				13-12
FEMA	13-27	Deficiencies in Development of Mission Assignment Policies and Procedures and High Risk Undelivered Orders Write-off Process				13-13
FEMA	13-28	Certain Payroll Processing Control Deficiencies				13-14
FEMA	13-29	Deficiencies Identified over Claims' Loss Reserves at Selected Insurance Companies that Participate in FEMA's NFIP as of August 30, 2013				13-15
FEMA	13-30	Issues Identified in Journal Voucher Testwork through September 30, 2013				13-16
FEMA	13-31	Updates and Oversight Needed to Grant Accrual Standard Operating Procedures and Their Implementation				13-17
FEMA	13-32	Improvements Needed in Management's Review of the Acceptable Variance Ranges				13-18
FEMA	13-33	Untimely Review of SF-224, <i>Statement of Transactions</i>				13-19
FLETC	13-01	Lack of Effective Controls over Estimated Reimbursable Agreement Amounts				13-01

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			IAR			FMC
			MW	SD	NC	No.
FLETC	13-02	Lack of Effective Controls in the Contracts Process				13-02
USCIS	13-01	Deficiencies in the Public and Confidential Financial Disclosure Reporting Process				13-01
USCIS	13-02	Deficiencies in the Recording, Classification, and Useful Life of Internal Use Software				13-02
USCIS	13-03	Inaccurate Data in the CLAIMS 3, CLAIMS 4, and MFAS Systems			J	
USCIS	13-04	Non-Compliance with the Federal Financial Management Improvement Act of 1996			J	
USCIS	13-05	Inadequate Monitoring of Software Licenses				Note 1
USCIS	13-06	Inadequate Preparation and Review of the Transaction by Elimination Pairs Report				13-03
USCIS	13-07	Insufficient Review of Journal Entries				13-04
ICE	13-01	General Property, Plant, and Equipment Controls	A			
ICE	13-02	Unfunded Leave				13-01
ICE	13-03	Imputed Costs – General Journal Entry				13-02
ICE	13-04	Payroll Accrual				13-03
ICE	13-05	Untimely Review of Form OGE-278 and OGE-450				13-04
ICE	13-06	General Property, Plant, and Equipment Additions and Deletions	A			
ICE	13-07	Approval of Personnel Actions				13-05
ICE	13-08	Internal Use Software	A			
ICE	13-09	Invoice Approval	A			
ICE	13-10	UDO Analysis	D			
ICE	13-11	Federal Financial Management System (FFMS) to Prism Reconciliation	D			
ICE	13-12	Funds Management and Untimely Recording of Obligation Activity to the General Ledger	D			
ICE	13-13	Financial Reporting	A			
ICE	13-14	U.S. Government Accountability Office (GAO) Checklist	A			
ICE	13-15	Invoice Receipt	A			
ICE	13-16	Entity Level Controls		E		
ICE	13-17	Federal Financial Management Improvement Act of 1996	A		J	
ICE	13-18	Completeness of the Lease Footnote Disclosure and Timely Capitalization of Leasehold Improvements	A			

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			IAR			FMC
			MW	SD	NC	No.
MGA	13-01	Potential Antideficiency Act Violation			L	
MGA	13-02	Ineffective Monitoring of Undelivered Orders				13-01
MGT	13-01	Time and Attendance	A			
MGT	13-02	Advances and Prepayments	A, D			
MGT	13-03	UDO Analysis	D			
MGT	13-04	Financial Reporting	A			
MGT	13-05	Funds Management and Untimely Recording of Obligation Activity to the General Ledger	D			
MGT	13-06	FFMS to Prism Reconciliation	D			
MGT	13-07	Government Accountability Office Checklist				13-01
MGT	13-08	Inadequate Controls over the Accounting of St. Elizabeths Lease and Related Leasehold Improvements	A			
MGT	13-09	Invoice Receipt	D			
MGT	13-10	Suspense Reconciliation	A			
MGT	13-11	Reconciliation of MGT Undelivered Orders and Unfilled Customer Orders	D			
MGT	13-12	Entity Level Controls		E		
MGT	13-13	Federal Financial Management Improvement Act of 1996			J	
NPPD	13-01	Time and Attendance				13-01
NPPD	13-02	Approval of Personnel Actions				13-02
NPPD	13-03	Review and Approval of Expenses (Intra-Governmental Payment and Collection)				13-03
NPPD	13-04	Ineffective Review of Recoveries	D			
NPPD	13-05	Unbilled Revenue	A			
NPPD	13-06	Personnel File Documentation				13-04
NPPD	13-07	General Property, Plant, and Equipment Controls	A			
NPPD	13-08	Financial Reporting	A			
NPPD	13-09	UDO Abnormal Balance	D			
NPPD	13-10	Unfilled Customer Orders	D			
NPPD	13-11	FFMS to Prism Reconciliation	D			
NPPD	13-12	Anti-Deficiency Act			L	
NPPD	13-13	Funds Management and Untimely Recording of Obligation Activity to the General Ledger	D			

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			IAR			FMC
			MW	SD	NC	No.
NPPD	13-14	Documentation of Contracting Officer Warrant Authority				13-05
NPPD	13-15	Untimely Clearing of Fund Balance with Differences per the Department of the Treasury Statement of Differences	A			
NPPD	13-16	General Ledger (FFMS) to Government-Wide Accounting/Central Accounting Reporting System Reconciliation	A			
NPPD	13-17	GAO Checklist				13-06
NPPD	13-18	Invoice Receipt	D			
NPPD	13-19	Federal Financial Management Improvement Act of 1996			J	
NPPD	13-20	Entity Level Controls		E		
OHA	13-01	Undelivered Orders				13-01
S&T	13-01	Untimely Recording of Obligation Activity to the General Ledger				13-01
S&T	13-02	Undelivered Orders				13-02
TSA	13-01	Travel Authorization and Expenditure Support				13-01
TSA	13-02	IPAC Review Controls and Suspense Clearing				13-02
TSA	13-03	Lease Accounting and Disclosure				13-03
TSA	13-04	Ineffective Controls over the Time and Attendance Process at Airports and Federal Air Marshal Facilities				13-04
TSA	13-05	Inadequate Review of Personnel Actions				13-05
TSA	13-06	Non-Compliance with the Debt Collection Improvement Act of 1996				13-06
TSA	13-07	Controls over Internal Use Software				13-07
TSA	13-08	Non-Compliance with the Federal Financial Management Improvement Act of 1996			J	
TSA	13-09	Undelivered Orders Controls – Validation and Verification				13-08
TSA	13-10	Property, Plant, & Equipment Controls				13-09
TSA	13-11	Gross Cost Deficiencies				13-10
TSA	13-12	Review of Manual Adjustments (Journal Vouchers and TIER Adjustments)				13-11
TSA	13-13	Contract Administration				13-12
TSA	13-14	Adjustments to Prior Year Obligations				13-13
TSA	13-15	Entity Level Controls				13-14
TSA	13-16	Imputed Costs				13-15

Department of Homeland Security
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 September 30, 2013

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

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Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
USSS	13-03	Funds Management Controls and Supporting Documentation				13-03
USSS	13-04	Journal Entry Controls	A			
USSS	13-05	Non-Compliance with the Federal Financial Management Improvement Act of 1996			J	
USSS	13-06	Lease Future Minimum Commitments Footnote Disclosure				13-04
OFM	13-01	Departmental Standards of Conduct				13-01
OFM	13-02	Non-Compliance with Financial Disclosure Filing Requirements and Insufficient Departmental Guidance				13-02
OFM	13-03	Inadequate Review of Interim Contingent Legal Liability	A			
OFM	13-03a	Inadequate Preparation and Review of Final Contingent Legal Liabilities	A			
OFM	13-04	Inadequate Review of Component-Submitted Transaction by Elimination Pairs Reports	A			
OFM	13-05	Non-Compliance with Federal Employees' Health Benefits				13-03
OFM	13-06	Review of DHS TIER Financial Statement and Footnote Crosswalks	A			
OFM	13-07	Inadequate Preparation and Review of Actuarial FECA Liability Allocation Worksheet	A			
OFM	13-08	<i>Number not used</i>	Not applicable			
OFM	13-09	Lack of Effective Controls over Accounting for Operating Leases	A			
OFM	13-10	Undelivered Orders Department-Wide Analysis	A			
OFM	13-11	Insufficient Department-Wide Non-GAAP Analysis	A			
OFM	13-12	Preparation and Review of the Special Purpose Financial Statements and Notes	Note 2			

¹Disposition Legend:

IAR Independent Auditors' Report dated December 11, 2013

FMC Financial Management Comment

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

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

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

NFR Notice of Finding and Recommendation

Cross-reference to the applicable sections of the IAR:

A Financial Reporting

B Information Technology Controls and Financial Systems Functionality

C Property, Plant, and Equipment

D Budgetary Accounting

Department of Homeland Security
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E	Entity-Level Controls
F	Liabilities
G	Grants Management
H	Custodial Revenue and Drawback
I	<i>Federal Managers' Financial Integrity Act of 1982 (FMFIA)</i>
J	<i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i>
K	<i>Single Audit Act Amendments of 1996</i>
L	<i>Antideficiency Act, as amended (ADA)</i>

Note 1: This finding was identified by USCIS management and therefore not included in the management letter.

Note 2: This finding was reporting in the Independent Auditors' Report on the Special-Purpose Financial Statements

Department of Homeland Security
Management Response to the Management Letter
September 30, 2013

U.S. Department of Homeland Security
Washington, DC 20528



**Homeland
Security**

February 28, 2014

MEMORANDUM FOR: Mark Bell
Acting Assistant Inspector General for Audits

FROM: Jeffrey M. Bobich *Jeffrey M. Bobich*
Director, Office of Financial Management

SUBJECT: Management Letter for the DHS' FY 2013 Financial Statements
and Internal Control over Financial Reporting Audit

Thank you for the opportunity to comment on the Draft Management Letter for the FY 2013 DHS Financial Statements and Internal Control over Financial Reporting Audit. We concur with the report's recommendations and remain fully committed to addressing our outstanding financial management challenges.

In FY 2013, the Department made significant progress and achieved its first ever unmodified (clean) financial statement opinion. We appreciate your office's contributions and insights, and we look forward to working with you as we implement corrective actions to address our remaining weaknesses and further strengthen DHS financial management and internal control.

If you have any questions, please contact me at (202) 447-0204 or Jeffrey.Bobich@hq.dhs.gov.



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Department of Homeland Security

Appendix A

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Department of Homeland Security

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