United States Coast Guard’s Management Letter for FY 2013 DHS Financial Statements Audit
MEMORANDUM FOR: Rear Admiral Stephen P. Metruck  
Assistant Commandant for Resources  
Chief Financial Officer  
United States Coast Guard

FROM: Anne L. Richards  
Assistant Inspector General for Audits

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

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

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

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

Attachment
January 15, 2014

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

Ladies and Gentlemen:

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

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

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

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

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

Very truly yours,

KPMG LLP

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# TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

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

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

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

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

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

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

Controls over the Confidential Financial Disclosure Forms (CFDR) process were not fully effective during FY 2013. Specifically, we noted that of the 25 samples tested:
• One CFDR was completed on March 13, 2013, after the February 15 filing deadline without evidence of a filing extension.
• The Office of Government Ethics (OGE) form OGE-450 was not properly reviewed and approved for one employee who filed an OGE-450 in 2012 and the OGE Optional 450-A in 2013.
Recommendation:
We recommend that Coast Guard evaluate and strengthen internal controls related to CFDR and Public Financial Disclosure Form (PFDR) filings to ensure compliance with all CFDR and PFDR Program rules.

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

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

Recommendation:
We recommend that Coast Guard develop and implement policies and procedures 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.
## Appendix A

### Crosswalk – Financial Management Comments to Active NFRs

**September 30, 2013**

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Appendix A

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

1Disposition Legend:
IAR Independent Auditors’ Report dated December 11, 2013
FMC Financial Management Comment
MW Contributed to a Material Weakness at the Department level when combined with the results of all other components
SD Contributed to a Significant Deficiency at the Department level when combined with the results of all other components
NC Contributed to Non-Compliance with laws, regulations, contracts, and grant agreements at the Department level when combined with the results of all other components
NFR Notice of Finding and Recommendation

Cross-reference to the applicable sections of the IAR:
A Financial Reporting
B Information Technology Controls and Financial Systems Functionality
C Property, Plant, and Equipment
D Budgetary Accounting
E Entity-Level Controls
F Liabilities
G Grants Management
H Custodial Revenue and Drawback
I Federal Managers’ Financial Integrity Act of 1982 (FMFIA)
J Federal Financial Management Improvement Act of 1996 (FFMIA)
K Single Audit Act Amendments of 1996
L Antideficiency Act, as amended (ADA)
Appendix A
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United States Coast Guard

Commandant
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