

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

United States Secret Service's Management Letter for FY 2013 DHS Financial Statements Audit





OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

APR 21 2014

MEMORANDUM FOR: Gwendolyn Sykes
Chief Financial Officer
United States Secret Service

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

SUBJECT: *United States Secret Service's Management Letter for
FY 2013 DHS Financial Statements Audit*

Attached for your information is our final report, *United States Secret Service's Management Letter for FY 2013 DHS Financial Statements Audit*. This report contains four comments and eight 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 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



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

January 15, 2014

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

Ladies and Gentlemen:

We have audited the 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 United States Secret Service (USSS) is a component of DHS. During our audit, we noted certain matters involving internal control and other operational matters, related to USSS, 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 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 USSS’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

United States Secret Service
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September 30, 2013

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United States Secret Service
Financial Management Comments
September 30, 2013

FMC 13-01 – Controls over Counterfeit Evidence Destructions (*Notice of Finding and Recommendation (NFR) No. United States Secret Service (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 fiscal year (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.

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 U.S. Department of Agriculture National Finance Center.

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.

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 Undelivered Orders (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 general ledger prior to the start of the period of performance. The contract period of performance began on October 1, 2012, and the contract was not executed and recorded in the general ledger 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 Financial Management Division (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 the general ledger 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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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 an 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.

United States Secret Service
Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2013

Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
USSS	13-01	Controls over Counterfeit Evidence Destructions				13-01
USSS	13-02	Human Resource Compliance and Controls				13-02
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

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	<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>



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Appendix A
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ADDITIONAL INFORMATION

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Department of Homeland Security
Office of Inspector General, Mail Stop 0305
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245 Murray Drive, SW
Washington, DC 20528-0305

You may also call 1(800) 323-8603 or fax the complaint directly to us at (202) 254-4297.

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