

OFFICE OF INSPECTOR GENERAL

**United States Secret Service's
Management Letter for DHS'
FY 2015 Financial Statements
Audit**



Homeland
Security

**May 4, 2016
OIG-16-81**



DHS OIG HIGHLIGHTS

United States Secret Service's Management Letter for DHS' FY 2015 Financial Statements Audit

May 4, 2016

Why We Did This Audit

The *Chief Financial Officers Act of 1990* (Public Law 101-576) and the *Department Of Homeland Security Financial Accountability Act* (Public Law 108-330) require us to conduct an annual audit of the Department of Homeland Security's (DHS) consolidated financial statements and internal control over financial reporting.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

KPMG LLP, under contract with the DHS Office of Inspector General, audited the United States Secret Service's financial statements and internal control over financial reporting for fiscal year (FY) 2015. The resulting management letter contains four observations related to internal controls and other operational matters for management's consideration. KPMG LLP noted internal control deficiencies and the need for improvement in several processes including confidential financial disclosure reporting, seized inventory process, time and attendance approval and the recording of expenses and invoice approval. These deficiencies are not considered significant and were not required to be reported in the *Independent Auditors' Report on DHS' FY 2015 Financial Statements and Internal Control over Financial Reporting*, dated November 13, 2015, included in the DHS FY 2015 *Agency Financial Report*. These observations are intended to improve internal control or result in other operating efficiencies.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

MAY 4 2016

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

FROM: Mark Bell *Mark Bell*
Assistant Inspector General for Audits

SUBJECT: *United States Secret Service's Management Letter for
DHS' FY 2015 Financial Statements Audit*

Attached for your action is our final report, *United States Secret Service's Management Letter for DHS' FY 2015 Financial Statements Audit*. This report contains four observations related to internal control deficiencies that were not required to be reported in our *Independent Auditors' Report on DHS' FY 2015 Financial Statements and Internal Control over Financial Reporting*, dated November 13, 2015, which was included in the Department of Homeland Security's (DHS) fiscal year (FY) 2015 *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 2015 financial statements and is responsible for the attached management letter and the conclusions expressed in it.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Maureen Duddy, Deputy Assistant Inspector General for Audits, at (617) 565-8723.

Attachment



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

December 18, 2015

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:

In planning and performing our audit of the consolidated financial statements of the U.S. Department of Homeland Security (DHS or Department), as of and for the year ended September 30, 2015, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements. In conjunction with our audit of the general purpose 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. The disposition of each internal control deficiency identified during our FY 2015 audits – as either reported in our *Independent Auditors' Report*, or herein as a financial management letter comment – 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
Table of Financial Management Comments
September 30, 2015

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

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United States Secret Service
Financial Management Comments
September 30, 2015

FMC 15-01 – Deficiencies in the Confidential Financial Disclosure Reporting Process (NFR No. USSS 15-01)

Controls over the submission and review of confidential financial disclosure forms (Office of Government Ethics (OGE) Form 450s) were not operating effectively. Specifically, during testwork over a sample of 45 employees required to file an OGE-450 form, the following deficiencies were identified:

- One employee did not file the OGE-450 within the 30 day deadline and was not granted extensions.
- One OGE-450 form was not fully completed by notation for all required questions and not identified during the review by the office of ethics.

Recommendation:

We recommend that USSS reinforce existing policies and procedures regarding filing of OGE-450 forms including timely submission and review of the forms.

FMC 15-02 – Ineffective Controls in the Seized Property Inventory Process (NFR No. USSS 15-02)

Controls over the physical security of seized property were not fully effective. Specifically, during testwork at three field offices, we identified the following control deficiencies:

- We noted two individuals did not sign the Evidence Vault Security Access Log (SF 4051) upon entry to the vault. While on site, we did not note any times where fewer than two individuals were present in the vault, but we could not confirm additional dates based on the vault log.

Recommendation:

We recommend that USSS train staff to emphasize the proper use of the SF 4051 (access logs).

FMC 15-03 – Ineffective Controls over Time and Attendance Approval (NFR No. USSS 15-04)

Controls over personal leave were not operating effectively. Specifically, during our testwork over the time and attendance process, we noted three of 45 employees used accrued annual leave prior to supervisory approval.

Recommendation:

We recommend that USSS document instances of emergency situations where leave is approved verbally and including when these verbal approvals are made.

United States Secret Service
Financial Management Comments
September 30, 2015

FMC 15-04 – Recording of Expenses and Invoice Approval Controls (NFR No. USSS 15-05)

Controls over expenses and invoice approvals were not operating effectively. Specifically:

- During substantive testwork over operating expenses as of June 30, 2015, we noted one instance out of six in which the transaction should have been recorded as an advance instead of an expense since the goods and services had not been received.
- During operating expense controls testwork, we noted one sample out of 45 in which the invoice was paid prior to being approved by a manager.

Recommendations:

We recommend that USSS:

- Reinforce the policies and procedures to ensure accurate recording of advances and prepayments and for the proper approval of invoices prior to payment.
- Reinforce the existing policies and procedures for proper completion of the SF-4342 Purchase Card Transaction Worksheet.

United States Secret Service
Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2015

Component	NFR No.	Description	Disposition			
			IAR			FMC
			MW	SD	NC	No.
USSS	15-01	Deficiencies in the Confidential Financial Disclosure Reporting Process				15-01
USSS	15-02	Ineffective Controls in the Seized Property Inventory Process				15-02
USSS	15-03	Funds Management: Untimely Recording of De-obligations		D		
USSS	15-04	Ineffective Controls over Time and Attendance Approval				15-03
USSS	15-05	Recording of Expenses and Invoice Approval Controls				15-04

¹Disposition Legend:

IAR Independent Auditors' Report dated November 13, 2015

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 System Functionality

C Property, Plant, and Equipment

D Budgetary Accounting

E Entity-Level Controls

F Grants Management

G Custodial Revenue and Refunds and Drawback

H *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*

I *Single Audit Act Amendments of 1996*

J *Antideficiency Act, as amended (ADA)*

K *Federal Financial Management Improvement Act of 1996 (FFMIA)*



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Department of Homeland Security

Appendix B
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