

**Federal Emergency
Management Agency's
Management Letter for
DHS' Fiscal Year 2016
Financial Statements
Audit**





DHS OIG HIGHLIGHTS

Federal Emergency Management Agency's Management Letter for DHS' Fiscal Year 2016 Financial Statements Audit

June 14, 2017

Why We Did This Report

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.

During the fiscal year (FY) 2016 audit of DHS' consolidated financial statements and internal control over financial reporting, KPMG LLP noted certain matters involving the Federal Emergency Management Agency's internal control and other operational matters, which are presented in this report for management's consideration.

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 Federal Emergency Management Agency's (FEMA) financial statements and internal control over financial reporting for FY 2016. The resulting management letter contains 17 observations related to internal controls and other operational matters for management's consideration. KPMG LLP identified internal control deficiencies and the need for improvement in several processes including personnel actions; ethics training requirements and filings; intergovernmental activity payments; Web Integrated Financial Management System; and the deobligation of undelivered orders. These deficiencies are not considered significant and were not required to be reported in the *Independent Auditors' Report on DHS' FY 2016 Financial Statements and Internal Control over Financial Reporting*, dated November 14, 2016, included in the DHS FY 2016 *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

June 14, 2017

MEMORANDUM FOR: Mary Comans
Acting Chief Financial Officer
Federal Emergency Management Agency

FROM: John V. Kelly 
Deputy Inspector General

SUBJECT: *Federal Emergency Management Agency's Management Letter for DHS' Fiscal Year 2016 Financial Statements Audit*

Attached for your action is our final report, *Federal Emergency Management Agency's Management Letter for DHS' Fiscal Year 2016 Financial Statements Audit*. This report contains 17 observations related to internal control deficiencies that were not required to be reported in our *Independent Auditors' Report on DHS' FY 2016 Financial Statements and Internal Control over Financial Reporting*, dated November 14, 2016, which was included in the Department of Homeland Security's (DHS) fiscal year (FY) 2016 *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 2016 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 8, 2016

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

Ladies and Gentlemen:

We planned and performed our audit of the consolidated financial statements (hereinafter referred to as the "financial statements") of the U.S. Department of Homeland Security (DHS or Department), as of and for the year ended September 30, 2016, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *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 consolidated financial statements. In conjunction with our audit of the consolidated 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 standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the internal control requirements included in OMB Bulletin No. 15-02.

During our audits we noted certain matters involving the Federal Emergency Management Agency's (FEMA) 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. These observations and recommendations are summarized in Exhibit I of this letter and are not considered significant deficiencies or material weaknesses in internal control over financial reporting. Significant deficiencies and material weaknesses in internal control over financial reporting have been previously communicated to the DHS Office of Inspector General (OIG) and management in our *Independent Auditors' Report*, dated November 14, 2016, included in the fiscal year 2016 DHS *Agency Financial Report*.

Deficiencies related to FEMA information technology (IT) controls will be presented in a separate letter to the DHS OIG, FEMA Chief Information Officer, and FEMA 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 FEMA's organization gained during our work to make comments and suggestions that should 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

Federal Emergency Management Agency
Table of Financial Management Comments
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Federal Emergency Management Agency
Financial Management Comments and Recommendations
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FMC 16-01 – Ineffective Monitoring of Controls at the National Flood Insurance Program Service Provider (NFR No. FEMA 16-01)

FEMA's Federal Insurance and Mitigation Administration division did not effectively monitor the controls in place at the National Flood Insurance Program Provider. Specifically, we identified the following:

- During our testwork over the Traverse journal voucher worksheet, we identified one instance in which the review and approval of a manual journal voucher was performed by an individual who was in a position below that of the preparer of the journal voucher.
- During our testwork over the December 2015 quarterly estimates, we noted there were incorrect descriptions for assumptions listed on the quarterly estimate worksheet. These assumptions related to the calculation of the forecasting figures related to the Homeowners Flood Insurance Affordability Act Surcharge and Change in Surcharge. Even though the amounts recorded in the spreadsheet were correct, the incorrect assumptions were listed within the document; evidencing improper review and approval of the first quarter financial forecast.

Recommendation:

FEMA should:

- Ensure that its service provider has sufficient resources to maintain proper internal controls, including reviewing and approving all financial transactions, including manual journal vouchers, as described in the related standard operating procedures.
- Monitor its service provider to ensure that they develop and implement a process to review and update financial statement assumptions related to the calculation of the forecasting amounts related to the Homeowners Flood Insurance Affordability Act Surcharge and Change in Surcharge.

FMC 16-02 – Failure to Review Policies and Procedures in Various Areas (NFR No. FEMA 16-03)

During testwork of FEMA's list of policies, directives, and doctrines completed as of June 21, 2016, we noted that 49 of the 272 active policies, directives, and doctrines that FEMA monitored were overdue for review in accordance with FEMA's review requirements.

Recommendation:

FEMA should:

- Re-emphasize the existing review requirements.
- Continue to issue quarterly forecasts to the Agency's component organizations highlighting the doctrine, policies, directives and instructions exceeding, or anticipated to exceed, the Agency's review standards.
- Continue to update Agency leadership regarding the relative health of the inventory, and work with component organizations to anticipate and have plans to update products approaching the Agency's review standard.

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FMC 16-03 – Ineffective Controls over Job Position Creation (NFR No. FEMA 16-05)

During our testing of 45 employees with an entrance on duty date in FY 2016, we identified three instances in which the Request for Personnel Action (SF-52) for a reservist position lacked the signatures of the individuals requesting and authorizing the action demonstrating approval of the individual hired for the position.

Recommendation:

FEMA should:

- Communicate to all applicable managers the requirements of hiring practices in the Hiring Guide for Managers.
- Develop policies and procedures to monitor hiring managers' compliance with the requirements in the Hiring Guide for Managers.

FMC 16-04 – Deficiencies Identified in the Web Integrated Financial Management Information System (WebIFMIS) Chart of Accounts (NFR No. FEMA 16-06)

Monitoring controls over the WebIFMIS chart of accounts were not operating effectively. Based on our review of the FEMA FY 2016 WebIFMIS chart of accounts, we noted that one subaccount was mapped incorrectly and was listed as a primary account within WebIFMIS.

Recommendation:

FEMA should adhere to the established monitoring process to review the WebIFMIS chart of accounts on a monthly basis to ensure that they are setup properly and in compliance with the United States Standard General Ledger (USSGL).

FMC 16-05 – Lack of Documentation to Support the Statistical and Financial Variance Analysis (NFR No. FEMA 16-07)

During our testwork over the December 2015 financial versus statistical data variance report, we identified two instances in which there was not sufficient supporting documentation. The lack of supporting documentation indicates a deficiency in monitoring the Write-Your-Own companies' variances that exceed the established thresholds.

Recommendation:

FEMA should monitor its service provider to ensure that they develop and implement a process to review and ensure variances are communicated to the appropriate insurance companies and National Flood Insurance Program Standards Committee, as they are identified during the financial versus statistical data variance report process.

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FMC 16-06 – Mission Action Plan Deficiencies (NFR No. FEMA 16-10)

During our testwork of FY 2016 Mission Action Plans, we determined that process owners for each Mission Action Plan were not completing milestones in accordance with the agreed upon timelines. We observed four National Flood Insurance Program Mission Action Plan milestones and 28 Grant Mission Action Plan milestones with a due date of June 30, 2016, or prior that were not complete.

Recommendation:

FEMA Office of the Chief Financial Officer should:

- Work with all relevant components to roll all incomplete milestones into FY 2017 Mission Action Plans and Corrective Action Plans.
- Create a detailed Management Action Plan for the completion and tracking of all FEMA Mission Action Plans and Corrective Action Plans. This revised management plan should include milestones to address appropriate staffing, Senior Leadership approval of final plans, monthly reporting to Senior Leadership of plan status, monthly calls with process owners, development of a monthly dashboard, and an escalation plan for plans at risk for delayed or missed milestones.

FMC 16-07 – Ineffective Controls Surrounding the Review of External Weekly Bulletins (NFR No. FEMA 16-11)

During our testwork of the weekly external bulletins, we noted that FEMA provided evidence of communication of the draft bulletin to the Strategic Communications Director and the Deputy Director and/or Director of External Affairs, but did not provide evidence that the prescribed individuals reviewed the bulletins for the week of June 7, 2016.

Recommendation:

FEMA should:

- Update the Standard Operating Procedures to capture documentation of the Strategic Communications Director and the Deputy Director and/or Director of External Affairs review and approval.
- Implement the updated procedures to demonstrate review and approval of external communications.
- Identify a system in which documentation can be found when needed or requested.

FMC 16-08 – Deficiencies in Ethics Training Requirements and OGE-450 Filing Requirements (NFR No. FEMA 16-12)

Controls over completion of initial ethics training were not operating effectively. Specifically, we identified the following:

- One instance in which a new hire did not complete the required initial ethics training within 90 days from the time the employee began work and did not receive an extension or waiver.
- One instance in which a public filer received non-verbal annual ethics training without the agency ethics official providing a written determination of this exception for calendar year 2015.

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Controls over submission and review of Office of Government Ethics (OGE)-450 financial disclosure forms were not operating effectively. Specifically, we identified the following:

- One instance in which the filer did not submit their OGE-450 form within the OGE specified timeframe and did not receive an extension.
- One instance in which the ethics official did not complete their review within the OGE specified timeframe.

Recommendation:

FEMA's Office of Chief Counsel should:

- Work with the Office of the Chief Component Human Capital Officer to ensure that all FEMA employees receive mandatory initial ethics training as part of FEMA's Emergency Manager Orientation.
- Ensure that all FEMA Ethics Counselors are aware of and properly implement the written determination requirement for non-verbal ethics training found at 5 Code of Federal Regulations (C.F.R.) § 2638.704(e)(1).
- Develop processes and procedures to track employees' compliance with financial disclosure filing deadlines, extensions, and the timely review of ethics counselors' financial disclosure reports.

FMC 16-09 – Employee Performance Appraisal/Review Deficiencies (NFR No. FEMA 16-13)

During our testwork of a sample of 45 calendar year 2015 annual performance appraisals completed in FY 2016 and 2016 quarterly reviews, we identified the following:

- Seven instances in which the 2015 annual performance appraisal was completed outside of the 30-day period following the end of the performance cycle.
- Six instances in which the 2015 annual performance appraisal did not have the required signature from both a Reviewing Official and a Rating Official.
- One instance in which an employee did not receive an annual performance appraisal for 2015.
- Three instances in which the employees' 2016 quarterly review was completed outside the 30-day period following the end of the performance cycle.
- One instance in which an employee did not receive a first quarter review in 2016.

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Recommendation:

FEMA should increase the timeliness of the performance management process by communicating to supervisors their responsibilities to properly document their employees' performance within the prescribed guidelines.

FMC 16-10 – Ineffective Controls over the Correction of Invalid Personnel Data Received from the National Finance Center (NFR No. FEMA 16-16)

Controls over the correction of invalid personnel data received from the National Finance Center (NFC) were not operating effectively. Specifically, we identified the following:

- Thirteen instances in which employees remained on the NFC reports for pay periods subsequent to their departure as FEMA employees.
- Eight instances in which an employee's error remained on the subsequent pay period's NFC report.
- Two instances in which FEMA was unable to provide the related personnel action used to resolve the error noted on the NFC report.

Recommendation:

FEMA should:

- Hire a Human Resources Specialist (Quality Reviewer), for the quality review of personnel actions, NFC reports and implementation of internal processing procedures. The agency's Human Resources Division Offices should collaborate to develop a Job Aid identifying standard operating procedures for the routing and quality review of SF-52s to decrease the number of errors ultimately being received from the NFC.
- Develop an Internal Standard Operating Procedure for an internal Human Resource Quality Review process of personnel actions, historical systemic corrections, and the retention of supporting documentation.
- Continue to improve the quality review process to decrease the number of processing errors and improve the monitoring of error reports.

FMC 16-11 – Failure to Reconcile National Flood Insurance Program Financial Data Information in the Preparation of the National Flood Insurance Program Financial Statements (NFR No. FEMA 16-17)

The Federal Insurance and Mitigation Agency division of FEMA did not effectively monitor controls in place at the National Flood Insurance Program to ensure that internal controls were operating effectively. Specifically, we identified the following:

- During testwork of the June 2016 Financial Data Receiving Log, we identified one instance in which a Write-Your-Own company was listed on the financial data summary but was omitted from the Financial Data Receiving Log.
- During our testwork of the June 2016 Reconciliation of the Transaction Record Reporting and Processing (TRRP) preliminary financial statements and Financial Data Summary, we identified a monetary difference in the amount of the recoveries line item between the Financial Data Summary

Federal Emergency Management Agency
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and the TRRP preliminary financial statements, which had not been identified as part of the monitoring process.

Recommendation:

FEMA should:

- Enhance the process for ensuring the accuracy and completeness of the receiving log and financial statements.
- Use the Financial Data Summary generated to provide Write-Your-Own report classification totals to verify the validity of the upload of exhibits to TRRP to ensure there is no difference between the Financial Data Summary and TRRP.

FMC 16-12 – Deficiencies Identified in the Web Integrated Financial Management Information System Transaction Codes (NFR No. FEMA 16-20)

Based on our sample of 35 active transaction codes as of June 30, 2016, we identified the following:

- Twelve transaction codes on the WebIFMIS transaction code listing were not compliant with the USSGL.
- Two transaction codes on the WebIFMIS transaction code listing did not contain the corresponding budgetary/proprietary entry as required in accordance with the USSGL.

Recommendation:

FEMA should:

- Revise their policies and procedures to encompass periodic review of existing transaction codes to ensure previously created transaction codes remain compliant with the USSGL.
- Complete the data cleanup effort that began in 2015 to remove transaction codes from the general ledger that are no longer active and those that are not compliant with the USSGL.

FMC 16-13 – Ineffective Controls over Intergovernmental Activity Payments (NFR No. FEMA 16-23)

Based on our sample of 30 Intra-Governmental Payment and Collections (IPACs) for the 6 month period ended March 31, 2016, we noted four instances in which the respective program office did not review and approve the IPAC within 90 days of the billing date.

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Recommendation:

FEMA should:

- Re-emphasize to personnel and enforce the requirement for adequate review of interagency payment transactions and supporting documentation as specified in FEMA's established policies and procedures. In addition, FEMA should re-emphasize the effectiveness of monitoring the FEMA Finance Center's internal tracking tool of received IPACs to ensure timely review of payments and support.
- Re-evaluate the requirements for all IPAC reviews given the type of interagency transactions paid.

FMC 16-14 – Error in Payroll and Benefit Expense and Non-compliance with Human Resources Laws and Regulations (NFR No. FEMA 16-24)

During our testwork of a sample of payments to employees for the period October 1, 2015, through June 30, 2016, we identified one instance in which an employee's pay raise applicable to pay period 01 per the employee's SF-50 was not processed in EmpowHR and was not paid to the employee until pay period 04.

Recommendation:

FEMA should:

- Establish a Quality Control Team to develop a quality review program consisting of required tasks, identification of responsible parties and relevant applicable timelines.
- Implement quality review procedures and checklists to be used for conducting quarterly reviews.
- Correct errors identified by such quality reviews and develop best practices to avoid the reoccurrence of such errors.

FMC 16-15 – Ineffective Review over the National Flood Insurance Program's Premium Rating and Receipt Process (NFR No. FEMA 16-29)

Controls over calculating net written premium amounts were not operating effectively in FY 2016. During testwork of written premiums for the period October 1, 2015, through August 31, 2016, we identified one instance in which the Community Rating System discount was understated as applied to the policy, resulting in an overstated premium of \$99.12 charged to the insured.

Recommendation:

FEMA should:

- Follow-up with the insurance company to determine that they have implemented the appropriate corrective action to address the exception identified.
- Provide increased oversight to insurance companies participating in the National Flood Insurance Program to ensure they process and review underwriting files in accordance with National Flood Insurance Program guidelines.
- During the Operation Review include specific file review samples for verification by the underwriter that the proper Community Rating System discount is being applied.

FMC 16-16 – Improper Design and Implementation of Investment Amortization Reconciliation Procedures (NFR No. FEMA 16-32)

FEMA recorded investment activity in its financial system, WebIFMIS, based on the Federal Investments and Borrowings Branch's monthly Fed Invest reports. However, FEMA did not perform procedures on those reports as recommended in the Federal Investments and Borrowings Branch Statement on Standards for Attestation Engagements (SSAE) 16 report. FEMA reconciled its recalculated amounts to the Fed Invest reports as the Treasury Financial Manual requires to ensure the accuracy of investment amortization premiums and/or discounts.

Recommendation:

FEMA should establish procedures to recalculate the investment amortization on three randomly selected Treasury Bonds for the National Flood Insurance Program, annually, to support the Federal Investments and Borrowings Branch SSAE 16 agency user control considerations.

FMC 16-17 – Untimely Deobligation of Undelivered Orders (NFR No. FEMA 16-33)

Controls to ensure timely deobligation of undelivered order balances were not operating effectively in FY 2016. Specifically, we identified one instance in which the undelivered order balance was determined to be invalid as of June 30, 2016, but was improperly excluded from FEMA's year end adjustment to write-off invalid undelivered order balances as the contract had expired.

Recommendation:

FEMA should:

- Integrate relevant Procurement Information System for Management (PRISM) attribute data, such as period of performance completion and contract type, into WebIFMIS.
- Develop a recurring standard report extract from the DHS PRISM that provides for contract type and period of performance completion dates at the task order level.
- Develop internal control procedures to periodically validate contract attributes recorded in the DHS PRISM.

Federal Emergency Management Agency
 Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2016

NFR No.	Description	Disposition ¹			FMC No.
		MW	SD	NC	
16-01	Ineffective Monitoring of Controls at the National Flood Insurance Program Service Provider				16-01
16-02	Lack of Manual Compensating Controls surrounding the Authorization/Approval of Personnel Actions and Approval of Time and Attendance	B			
16-03	Failure to Review Policies and Procedures in Various Areas				16-02
16-04	Lack of Oversight by the National Flood Insurance Program Standards Committee	B	D		
16-05	Ineffective Controls over Job Position Creation				16-03
16-06	Deficiencies Identified in the Web Integrated Financial Management Information System Chart of Accounts				16-04
16-07	Lack of Documentation to Support the Statistical and Financial Variance Analysis				16-05
16-08	Ineffective Controls over Grant Obligations and Deobligations	B			
16-09	Ineffective Controls over the Issuances of Grantee Post-Monitoring Letters		E		
16-10	Mission Action Plan Deficiencies				16-06
16-11	Ineffective Controls Surrounding the Review of External Weekly Bulletins				16-07
16-12	Deficiencies in Ethics Training Requirements and OGE-450 Filing Requirements				16-08
16-13	Employee Performance Appraisal/Review Deficiencies				16-09
16-14	Ineffective Controls over Mission Assignment Activity	B			
16-15	Ineffective Controls over Procurement Activity	B			
16-16	Ineffective Controls over the Correction of Invalid Personnel Data Received from the National Finance Center				16-10
16-17	Failure to Reconcile National Flood Insurance Provider Financial Data Information in the Preparation of the National Flood Insurance Program Financial Statements				16-11
16-18	Ineffective Controls Over Travel Activity	B			
16-19	Ineffective Review over National Flood Insurance Program's Claim Payments Process	B			
16-20	Deficiencies Identified in the Web Integrated Financial Management Information System Transaction Codes				16-12
16-21	Ineffective Controls over the Quarterly Cash Analysis		E		
16-22	Control Deficiencies over Management of Assistance to Firefighters, Staffing for Adequate Fire & Emergency Response, and Fire Prevention & Safety Grant Programs	B			
16-23	Ineffective Controls over Intergovernmental Activity Payments				16-13
16-24	Error in Payroll and Benefit Expense and Non-compliance with Human Resources Laws and Regulations				16-14
16-25	Ineffective Controls over Procurement Contract Management	B			
16-26	Ineffective Utilization of the Results of Federal Insurance and Mitigation Administration Operational Reviews	B			

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NFR No.	Description	Disposition ¹			FMC No.
		MW	SD	NC	
16-27	Ineffective Controls over Monitoring Grantees' Compliance with Single Audit Act		E		
16-28	Deficiencies Identified over Claims' Case Reserves at WYO Companies Participating in FEMA's National Flood Insurance Program	B			
16-29	Ineffective Review over National Flood Insurance Program's Premium Rating and Receipt Process				16-15
16-30	Ineffective Controls over the Tracking of Grants for Closeout	B	E		
16-31	Lack of Centralized Oversight over Grants Management Process		D, E		
16-32	Improper Design and Implementation of Investment Amortization Reconciliation Procedures				16-16
16-33	Untimely Deobligation of Undelivered Orders				16-17
16-34	Non-Compliance with the Federal Financial Management Improvement Act			J	

¹Disposition Legend:

IAR Independent Auditors' Report dated November 14, 2016

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 Information Technology Controls and Financial System Functionality

B Financial Reporting

C Property, Plant, and Equipment

D Entity-Level Controls

E Grants Management

F Custodial Revenue and Refunds and Drawback

G *Federal Managers' Financial Integrity Act of 1982*

H *Single Audit Act Amendments of 1996*

I *Antideficiency Act, as amended*

J *Federal Financial Management Improvement Act of 1996*



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