OFFICE OF INSPECTOR GENERAL

Management Letter for the FY 2014 DHS Financial Statements and Internal Control over Financial Reporting Audit

Homeland Security

March 13, 2015

OIG-15-44

Highlights

Management Letter for the FY 2014 DHS Financial Statements and Internal Control over Financial Reporting Audit

March 13, 2015

Why We Did This

The Federal Government has a fundamental responsibility to be an effective steward of taxpayers' dollars. Sound financial practices and related management operations, reliable financial systems, and effective internal control are essential for reliable, timely financial information that supports management decision making needed to achieve the Department of Homeland Security's (DHS) mission.

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

What We Found

The Office of Inspector General contracted with the independent accounting firm KPMG LLP to conduct an integrated audit of DHS' fiscal year 2014 consolidated financial statements and internal control over financial reporting.

The Management Letter contains 101 observations related to internal controls and other operational matters for management's considerations. KPMG LLP noted deficiencies and needed improvements in certain processes. These deficiencies did not meet the criteria to be reported in the *Independent Auditor's Report on DHS' FY 2014 Financial Statements and Internal Control over Financial Reporting,* of November 14, 2014, included in DHS FY 2014 *Agency Financial Report*. Internal control deficiencies that meet the criteria were reported, as required, in the independent auditor's report.

Management's Response

The Office of Financial Management concurred with the report's recommendations and remains fully committed to addressing financial management challenges.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

MAR 13 2015

TO: Jeffrey Bobich
Director
Office of Financial Management

FROM: Mark Bell
Assistant Inspector General for Audits

SUBJECT: *Management Letter for the FY 2014 DHS Financial Statements and Internal Control over Financial Reporting Audit*

Attached for your information is our final report, *Management Letter for the FY 2014 DHS Financial Statements and Internal Control over Financial Reporting Audit*. This report contains observations and recommendations related to internal control deficiencies. These deficiencies were not required to be reported in the *Independent Auditors' Report* on the Department of Homeland Security (DHS) fiscal year (FY) 2014 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 November 14, 2014, which was included in the FY 2014 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 2014 financial statements and is responsible for the attached management letter dated December 8, 2014, and the conclusions expressed in it. To ensure the quality of the audit work performed, we (1) evaluated KPMG's qualifications and independence; (2) reviewed the approach and planning of the audit; (3) monitored the progress of the audit at key points; (4) reviewed and accepted KPMG's audit report; and (5) performed other procedures that we deemed necessary. Additionally, we provided oversight of the audit of financial statements and certain accounts and activities conducted at key Components within the department. We noted no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

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

Attachment

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

December 8, 2014

Office of Inspector General and Chief Financial Officer,
U.S. Department of Homeland Security
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, 2014, 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. 14-02, *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.

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 2014 audits – as either reported in our *Independent Auditors' Report*, or herein as a financial management letter comment – 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, DHS Chief Information Officer and DHS Chief Financial Officer.

Our audit procedures are designed primarily to enable us to form opinions 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.

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.

DHS' response to the deficiencies identified in our audit is included in Appendix B. DHS' response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Very truly yours,

KPMG LLP

Department of Homeland Security
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Department of Homeland Security
Financial Management Comments
September 30, 2014

I. CUSTOMS AND BORDER PROTECTION (CBP)

CBP – Financial Management Comment (FMC) 14-01 – Weaknesses in the Recognition of Goods and Services Received as of March 31, 2014 *(Notice of Finding and Recommendation (NFR) No. CBP 14-05)*

During test work as of March 31, 2014, we reviewed a statistical sample of 40 operating expense type transactions and identified that CBP's control over periodic review of potentially invalid goods receipts was not properly designed and implemented in fiscal year (FY) 2014, as timely resolution of all items on the report was not required. Specifically, we identified one instance where a duplicate service entry sheet was created for $1.3 million while posting a credit against the original service entry sheet. There was not an invoice available to record against the duplicate service entry sheet.

Recommendation:
We recommend that the Goods receipt/Service Entry Sheet Report be updated to require the status of the open goods receipts recorded in the report.

CBP – FMC 14-02 – Deficiencies in Controls over the Unfunded Annual Leave Accrual Process *(NFR No. CBP 14-08)*

During testwork over unfunded annual leave, we noted the following:

- CBP did not have controls in place to ensure the completeness and accuracy of the underlying data used to calculate the quarterly unfunded leave liability. CBP prepared a quarterly adjusting journal entry based off of an unfunded leave report populated with data from U.S. Department of Agriculture and CBP's Time and Attendance Management System.
- During the walkthrough phase of our audit, we confirmed that there were not end-user controls in place to ensure the data from U.S. Department of Agriculture, which is relied upon by CBP in conjunction with data from the Time and Attendance Management System, to record its unfunded leave liability, is complete and accurate.
- The control over the review of the quarterly adjusting journal entry is not properly designed and implemented, as CBP included unused compensatory leave for employees who are exempt from the Fair Labor Standards Act, home leave, and for the related administrative uncontrollable overtime in the unfunded leave liability, all of which CBP is not obligated to pay upon the separation of an employee and should not have been included in the liability.
- We noted controls to ensure the interim non-GAAP analysis at April 30, 2014 did not operate effectively, as CBP's non-GAAP policy related to unfunded leave was omitted. Specifically, CBP recorded an unfunded leave accrual of annual leave balances as of the end of the last full pay period of a month, and did not reduce the amount of the unfunded leave accrual by the amount of unfunded leave taken

between the end of the last full pay period and the end of the month because the information was not available in time for year-end reporting and the amount is immaterial.

Recommendations:
We recommend that CBP:

- Develop and implement a control to ensure the output data provided by the U.S. Department of Agriculture, used in the calculated of payroll and related expense balances, is materially complete and accurate.
- Update the programming used to calculate the unfunded leave accrual, to exclude compensatory leave for Fair Labor Standards Act exempt employees, home leave, and the related administrative uncontrollable overtime from the reported balance. In addition, CBP should document a process for an annual review of the types of leave and whether they are properly included or excluded from the unfunded leave liability.
- Continue to document the potential financial statement impact of this policy in the semi-annual non-GAAP analysis prepared in future years.

CBP – FMC 14-03 – Ineffective Controls over the Performance Management Program *(NFR No. CBP 14-09)*

We noted that controls over the non-senior executive service (SES) employee performance management process were not fully effective for FY 2014. Specifically, during test work over a sample of 45 non-SES employees (supervisory and non-supervisory), seven instances were noted where CBP was unable to provide evidence that required performance reviews were completed in a timely manner (i.e., within one month).

Recommendations:
We recommend that CBP:

- Continue to closely monitor and reinforce supervisors' timely completion and issuance of performance plans, mid-cycle reviews and final ratings of record agency-wide.
- Identify and implement additional strategies to hold supervisors more accountable with regard to adhering to performance management policies and procedures, such as sending monthly e-mail notices to all supervisors reminding them of their performance management responsibilities and requiring program office performance management liaisons to provide senior leadership the names of supervisors who are past due on completing required performance management actions.
- Establish direct contact with supervisors to reinforce their performance management responsibilities. Regular ongoing messages will continue to be sent to program offices regarding the issuance of performance plans, mid-cycle reviews, and final ratings of record.

- Engage with senior leadership within each program office to consistently reinforce performance management responsibilities and request they hold supervisors accountable for adhering to performance management policy.

CBP – FMC 14-04 – Control Deficiencies over Customs Trade Partnership Against Terrorism Benefits *(NFR No. CBP 14-13)*

During testwork over a sample of 25 Customs Trade Partnership Against Terrorism (C-TPAT) validations and re-validations, we noted the control to ensure proper benefits are applied to a C-TPAT Partner's account were not always operating effectively. Specifically, benefits were not updated in the Automated Targeting System to reflect the results of the most recent Validation Report for one C-TPAT Partner.

Recommendations:
We recommend that CBP:

- Monitor C-TPAT partner benefits on a monthly basis, to verify that the Automated Targeting System appropriately reflects the Treasury Information Executive Repository status reported in the most recent Validation/Re-validation report.
- Send a report to the field offices in cases where discrepancies are identified and ensure timely resolution of those discrepancies.

CBP – FMC 14-05 – Lack of Implementation of Controls over Determining Classification of Leases *(NFR No. CBP 14-14)*

CBP did not fully implement controls to ensure proper classification of personal and Office of Information Technology property lease agreements as capital or operating. Specifically, CBP did not implement a process to classify these leases as capital or operating and does not maintain sufficient documentation that can serve as evidence to support CBP's classifications as capital or operating for personal and Office of Information Technology property.

Recommendation:
We recommend that CBP implement the Procurement Directorate's Personal Property Lease Classification Determination policy, on October 1, 2014. Thereby establishing policy and procedures for the classification of any personal property leases (including rental agreements) as either a capital or operating lease. In addition we recommend that CBP ensure that the policy applies to all personal property leases, and includes specific responsibilities for the implementation of the policy.

CBP – FMC 14-06 – Ineffective Controls in the Seized and Forfeited Inventory Process *(NFR No. CBP 14-16)*

Controls over the physical security and physical inventory of Seized and Forfeited Property were not operating effectively during the FY 2014. During testwork at ten seized property vaults, we identified the following control deficiencies:

- One instance where the amount listed on the Custody Receipt for Seized Property and Evidence form did not agree with the amount listed in the Seized Asset and Case Tracking System (SEACATS) inventory.
- Two instances in one location where the vault log book evidenced that only one officer entered the vault for a period of time.
- Eighteen instances where a count team did not comply with the FY 2014 Vault and Temporary Secured Storage Facilities Inventory Instructions. The team was not properly recording updates to weights of seizures when the changes were considered to be immaterial.

Recommendation:
We recommend that CBP issue enhanced guidance to reinforce policies and procedures over activities around the custody, management, and accountability of seized property, vault access protocols, updating SEACATS timely, and performance of physical inventories.

CBP – FMC 14-07 – Deficiencies in the Public and Confidential Financial Disclosure Reporting Process *(NFR No. CBP 14-18)*

During testwork over a sample of 15 Office of Government Ethics (OGE)-278s and 45 OGE-450s, we noted the following:

- Controls to ensure proper review of OGE-278s and OGE-450s were not operating effectively. Specifically,
  - One instance where review of the OGE-278 was not initiated within the 60-day requirement.
  - One instance was noted where the review of the OGE-278 was initiated within the 60-day requirement, but was not completed until after the 60-days review period. CBP was unable to provide documentation to evidence that the Ethics Official was actively working to complete the review (i.e. communicating with the filer to resolve open questions or discrepancies) prior to the end of the 60-day period.
  - One instance where review of the OGE-450 was not initiated within the 60-day requirement.
- Controls to ensure OGE-278s are filed timely were not operating. We noted one instance where the OGE-278 was not filed by the deadline.

Recommendations:
We recommend that CBP enhance its communication surrounding the filing process, including the following:
- Amending OGE Form 450 and OGE Form 278 directives that are currently awaiting approval from the ethics office at DHS Headquarters to specify that all reports shall be reviewed within 60 days after the date of filing.
- Notifying filers of the potential $200 late filing fee for missing the OGE Form 278 filing deadline when notification to complete a filing is sent out.

CBP – FMC 14-08 – Control Deficiencies in Estimated Accounts Receivable (Public) Process *(NFR No. CBP 14-19)*

During testwork over accounts receivable, we noted the following:
- CBP's documented standard operating procedures (SOPs) over performance of the Automated Commercial System (ACS) to User Fee Database Reconciliation and preparation the Estimated Receivable Report were not properly authorized.
- Controls over the estimated accounts receivable process did not operate effectively in FY 2014. We noted the following:
  - CBP did not perform the January 2014 ACS to User Fee Database reconciliations timely (i.e., within the subsequent month).
  - CBP improperly included Accounts Receivables balances, and the related Allowance for Doubtful Accounts, for amounts to which CBP no longer had a claim to receipt of payment as of September 30, 2014. As of September 30, 2014, eight outstanding Customs User Fee bills in the amount of $1.6 million and six outstanding Immigrations User Fees bills in the amount of $1.5 million were determined by CBP to no longer be valid receivables. We noted two of the 14 outstanding bills deemed no longer valid had been submitted for approval to be removed in FY 2011.

Recommendations:
We recommend that CBP establish policies and procedures over the Estimated Accounts Receivable process to ensure the following:
- Responsibilities are properly reassigned in the absence of CBP personnel who have primary ownership of the process; and
- Invalid receivables are removed from the receivable balance in a timely manner.

CBP – FMC 14-09 – Omission of Rotable Parts Accounting Policy from Non-GAAP (Generally Accepted Accounting Principles) Analysis *(NFR No. CBP 14-21)*

CBP's controls over identifying and evaluating non-GAAP accounting policies were not operating effectively in FY 2014. Specifically, CBP's non-GAAP accounting policy analysis did not identify rotable parts (i.e. spare parts such as engines and propellers), which meet the definition of property, plant & equipment per Statement of Federal Financial Accounting Standards No. 6, but were recorded as operating materials and supplies, as a non-GAAP accounting policy.

Recommendation:
We recommend CBP work with the Department and Coast Guard to determine the proper accounting for rotable parts.

CBP – FMC 14-10 – Failure to Establish and Review Significant Accounting Policies and Standard Operating Procedures in Various Areas *(NFR No. CBP 14-23)*

Controls to ensure significant accounting policies and standard operating procedures (SOPs) are formally documented, complete, and updated/revised timely were not properly implemented in FY 2014. We noted the following:

- Six SOPs were outdated or were no longer appropriate.
- One SOP did not exist.
- Two SOPs were incomplete.
- The level of precision contained in three SOPs was not properly documented.

Recommendations:
We recommend that CBP implement entity-level controls across the organization to ensure the following:

- All significant policies and procedures are formally documented, meaning the policy has been written up in sufficient detail, including level of precision, and the policy has been approved/authorized by personnel with authority to establish organizational policy.
- All significant policies and procedures are periodically reviewed and updated to ensure the policy remains current and applicable.

CBP – FMC 14-11 – Untimely Review of the Quarterly Department of Labor Chargeback Reports *(NFR No. CBP 14-24)*

The quarterly control over review of the Department of Labor (DOL) chargeback report did not operate effectively in fiscal year FY 2014, as 93 of 110 offices did not review the March 31, 2014 DOL Chargeback report by June 30, 2014 . Specifically, the 93 offices did not submit acknowledgment of the review and the detail of any errors identified, within 90 days from the end of the second quarter. We do note that the 93 offices did submit their reviews by August 25, 2014. However, the following 35 errors were identified in the March 31, 2014 DOL chargeback reports of those 93 offices that submitted late:

- Nine Date of Birth Corrections
- Twenty-one Agency Chargeback Code Corrections
- One Possible Overpayment
- Three Social Security Number Corrections
- One Name Spelling Correction

Recommendations:
We recommend CBP incorporate a monitoring/tracking control to ensure timely review and submission occurs across all field offices. For example:

- Development of a tracking system on SharePoint for accountability of reviews and acknowledgements by all program offices.
- Increasing direct communications with program offices to:
  - Troubleshoot SharePoint issues, to prevent untimely submissions from occurring.
  - Obtain an understanding of the root causes of delays in review and acknowledgement of the chargeback reports and determine if revisions/adjustments to the submission process are necessary
- Increasing accountability of program offices, through periodic reporting of untimely submissions to CBP Management.

CBP – FMC 14-12 – Lack of Implementation of Materiality Analysis for Seized Property Footnote *(NFR No. CBP 14-25)*

Controls related to CBP's disclosure of seized and forfeited property were not fully documented in FY 2014. Specifically, the process for analyzing changes to the footnote was not formally documented until July 2014, although we determined an analysis was performed in February 2014. Furthermore, CBP's SOP, *Annual Review of Drugs to be Added or Deleted from the Rollforward* was insufficient. It failed to identify why the quantitative thresholds are appropriate and what the qualitative factors to be used should be and why they would be relevant. The SOP refers to "a more extensive evaluation", without any further clarification.

Recommendation:
We recommend the SOP, *Annual Review of Drugs to be Added or Deleted from the Rollforward*, be updated to more specifically document the rationale for the quantitative thresholds and examples of qualitative factors that are considered when making materiality determinations regarding what categories of seized and forfeited property are to be disclosed in the footnote disclosure. The SOP should also be updated to document

what CBP considers appropriate documentation of the materiality considerations and the related retention period for such documentation.

CBP – FMC 14-13 – Ineffective Controls over the Timely Review of Liabilities for Deposit Accounts *(NFR No. CBP 14-26)*

Controls to ensure timely review and resolution of prior disclosures recorded as liabilities for deposit were not effectively implemented in FY 2014. We selected a statistical sample of six items recorded in the liabilities for deposit accounts balance as of June 30, 2014 and noted the following:

- One prior disclosure tested was recorded as a liability for deposit account in FY 2008, and was not resolved and recorded as a collection for duty owed until August 2014, when the amount was reclassified as custodial liability (i.e. Due to General Fund). CBP was unable to provide supporting documentation to evidence the prior disclosure was being actively researched and resolved during this six year period on at least a quarterly basis in accordance with policy.
- Four prior disclosures samples were not resolved timely. CBP was unable to provide sufficient documentation that the prior disclosures were actively researched on at least a quarterly basis in accordance with policy, as a result there status remained undetermined.

Recommendations:
We recommend that CBP:

- Establish monitoring controls to ensure that all items held in liabilities for deposit accounts are reviewed on at least a quarterly basis.
- Office of Trade redistribute applicable policies and procedures for the quarterly review of items held in liabilities for deposit accounts.

CBP – FMC 14-14 – Error in Performance of the September 30 Payroll Accrual Look-Back Analysis *(NFR No. CBP 14-27)*

The monthly control over the look-back analysis of the funded payroll accrual was not operating effectively in FY 2014. Specifically, we noted the final look-back analysis comparing the accrual to actual expense incurred for the 7 business days of pay period 19 that occurred in FY 2014 was not performed timely (i.e., by the end of October 2014), as it was prepared and reviewed on November 6, 2014. We noted that pay period 19 began on September 21, 2014 and ended on October 4, 2014, and the respective payroll report of actual payroll expense became available to CBP on October 15, 2014. CBP performed a preliminary look-back analysis by comparing actual payroll expense incurred in pay period 18 (which was paid out on September 30, 2014) to the year-end accrual. However, the final look-back was not performed prior to the end of October.

Recommendation:
We recommend that CBP modify the respective policy or procedure to specify a timeframe for performance of the monthly control, to ensure it is performed timely by the end of the subsequent month.

CBP – FMC 14-15 – Untimely Deobligation of Undelivered Orders *(NFR No. CBP 14-28)*

Controls in place to ensure all open obligations are properly identified as valid or invalid were not effectively implemented in FY 2014. We noted the following:

- During test work over 85 inactive open obligations (i.e. those with no activity in the current fiscal year) performed as of May 31, 2014, we noted the following exceptions:
    - Two instances where the open obligation was improperly identified as invalid (Status 3) on the March 31, 2014 Quarterly Obligation Analysis.
    - Six instances where the open obligation was improperly determined to be valid (Status 1) on the March 31, 2014 Quarterly Obligation Analysis.
    - One instance where the open obligation was appropriately identified as Invalid (Status 3) on March 31, 2014 Quarterly Obligation Analysis but was inappropriately changed to Under Review (Status 2) on the September 30, 2014 Quarterly Obligation Analysis.
- During test work over 135 active open obligations (i.e. those with activity in the current fiscal year) performed as of August 31, 2014, we noted the following exceptions:
    - One instance where an open obligation created in FY 2014 was improperly assessed as valid per CBP's UDO certification process.
    - One instance where an open obligation was improperly determined to be valid (Status 1) on the June 30, 2014 Quarterly Obligation Analysis.

Recommendations:
We recommend that CBP:

- Increase the extent of its monitoring over performance of the Quarterly Obligation Analysis; including ensuring that adequate detail is retained to support the determination provided in the analysis.
- Provide training to individuals completing the analysis to ensure a consistent approach to performing the review and making status assessments is implemented across the organization.

CBP – FMC 14-16 – Lack of Monitoring and Tracking of Heritage Property, Plant, and Equipment *(NFR No. CBP 14-29)*

CBP lacked policies and procedures to ensure all assets comprising the collections of documents and artifacts are appropriately reviewed, classified, recorded, and safeguarded in accordance with the criteria in Statement of Federal Financial Accounting Standards No. 29. Additionally, CBP did not have controls in place to ensure all new and/or potential heritage assets were identified at Ports, Customs Houses and field units, and reported to the Historical Program Office.

Recommendation:
We recommend CBP dedicate sufficient resources to develop and implement policies and procedures to ensure the completeness and accuracy of new, existing, and/or potential heritage; this should include ensuring these assets are identified and tracked.

CBP – FMC 14-17 – Misclassification of Custodial Liabilities as Accounts Payable Related to Puerto Rico *(NFR No. CBP 14-30)*

Controls over the review of manual adjusting journal entries recorded for amounts to be paid back to Puerto Rico were not operating effectively. We noted the following:

- While accruing a liability for collections related to the pharmaceutical company protesting the duty rate of two particular drugs, CBP improperly recorded the amount as an accounts payable rather than a custodial liability at September 30, 2014.
- While accruing a liability for collections to be transferred to Puerto Rico, CBP improperly recorded the amount as an accounts payable rather than a custodial liability at September 30, 2014.
- While accruing a liability relating to an entry receivable that will be transferred to Puerto Rico upon being collected, CBP improperly recorded the amount as an accounts payable rather than a custodial liability at June 30, 2014 and September 30, 2014.

Recommendation:
We recommend that CBP correct the posting logic applied in preparing adjusting journal entries related to amounts payable to Puerto Rico, such that amounts owed are recorded to standard general ledger (SGL) account 2980, custodial liability, rather than SGL account 2110, accounts payable.

CBP – FMC 14-18 – Deficiencies in Tracking CBP Leases *(NFR No. CBP 14-31)*

During testwork over leases, we identified the following:

- Controls to ensure completeness and accuracy of the lease population used to prepare the operating lease footnote disclosure were not operating effectively.

During our testing of CBP's September 30, 2014 lease information, we selected a sample of 25 lease payments and identified the following:
  - One instance where a direct real property lease was improperly classified as non-cancelable rather than cancelable, as we noted the lease agreement included a cancellation clause in which the lease could be canceled within a period of one year.
  - Nine instances where direct, cancelable leases were improperly omitted from the footnote disclosure. We noted all leases, both non-cancelable and cancelable, where the non-cancelable portion of the lease term was greater than one year were required to be presented in the footnote disclosure per the DHS Component Requirements Guide.
- We noted controls to ensure the semi-annual non-GAAP analysis did not operating effectively in FY 2014, as CBP's non-GAAP policy related to disclosure of operating leases of personal property was omitted. Specifically, CBP did not disclose future minimum lease payments of personal property in the operating lease footnote disclosure.

Recommendations:
We recommend that CBP:
- Review policies and procedures to ensure that they are clearly documented in accordance with generally accepted accounting principles, and with the DHS Components Requirements Guide.
- Establish monitoring controls to ensure personnel are preparing the operating lease footnote disclosure in accordance with the policies and procedures.

CBP – FMC 14-19 – Control Deficiencies over Underlying Data Used to Prepare the Fines, Penalties, and Forfeitures Receivable Adjusting Journal Entry ***(NFR No. CBP 14-32)***

Controls to ensure completeness and accuracy of the underlying data used to record the open fines and penalties receivables balance were not properly designed and implemented in FY 2014. Specifically, the monthly dataset that was generated from SEACATS of open fines and penalties receivables pulled the lowest mitigated amount per SEACATS, and did not account for cases when the mitigation period may have lapsed. Once the mitigation period lapsed, the receivable amount on the report should revert to the actual unmitigated amount owed as of September 30, 2014. During year-end test, we reviewed a statistical sample of four open fines, penalties, and forfeitures receivables and noted one instance where an open fines, penalties, and forfeitures receivable was recorded through the monthly fines, penalties, and forfeitures receivables adjusting journal entry as $2.2 million, when the accurate receivable amount, as recorded in SEACATS and per the bill issued to the debtor, was $4.4 million.

Recommendations:
We recommend that CBP:

- Request that CBP's SEACATS modernization development team design a new query to ensure the appropriate information (i.e. the true receivable amount owed to CBP) is included in the report used by CBP to record the fines, penalties, and forfeitures receivable adjusting journal entry.
- Until the new query is utilized, design and implement a compensating control to ensure the lowest mitigated amount per the SEACATS report is the accurate receivable amount owed to CBP.

CBP – FMC 14-20 – Ineffective Controls in the Review of Adjusting Journal Entries *(NFR No. CBP 14-33)*

Controls over the review of adjusting journal entries were not operating effectively in FY 2014. Specifically, during test work performed over CBP's September prior year recoveries reconciliation, we noted that although the reconciliation was performed properly, the associated adjusting journal entry was reviewed by someone other than the preparer. However, it was not reviewed and approved by a Lead Accountant or Section Chief within the Regulatory Reporting section.

Recommendations:
We recommend that CBP:

- Reinforce the importance of following adjusting journal entry review procedures.
- Consider implementation of an automated adjusting journal entry review process within the general ledger, which would ensure that an adjusting journal entry is not posted to the general ledger without being properly reviewed.

CBP – FMC 14-21 – Deficiency over the Year-End Statement of Differences Reconciliation *(NFR No. CBP 14-34)*

We determined that CBP did not have a control in place to ensure year-end intragovernmental balances reported for advances and prepayments were accurate. Specifically, we noted a difference of $25.3 million for the reported balance at September 30, 2014 with the Department of Transportation. We issued a confirmation to the Department of Transportation to confirm the year-end balance reported by CBP of $112.3 million. Per the confirmation response, the Department of Transportation reported an ending balance of $87.0 million. CBP was unable to provide sufficient audit evidence to reconcile or resolve the noted discrepancy.

Recommendation:
We recommend that CBP establish policies and procedures to validate advance balances quarterly by reaching out to the applicable trading partners to confirm agreement of outstanding advance balances.

II. DOMESTIC NUCLEAR DETECTION OFFICE (DNDO)

DNDO – FMC 14-01 – Undelivered Orders *(NFR No. DNDO 14-01)*

Controls were not operating effectively to ensure the timely de-obligation of undelivered orders. Specifically, we noted two instances in which obligations under going a Defense Contract Audit Agency audit were not identified for de-obligation. In another instance, a credit issued to a grant related obligation that had been closed in a previous fiscal year created a false obligation balance which was not proposed for deobligation during the fourth quarter obligation analysis.

Recommendation:
We recommend that DNDO reinforce existing procedures over review of open obligations.

III. FEDERAL EMERGENCY MANAGEMENT ADMINISTRATION (FEMA)

FEMA – FMC 14-01 – Internal Control Deficiencies Identified over Premiums Written by FEMA's National Flood Insurance Program as of March 31, 2014 *(NFR No. FEMA 14-01)*

We tested a total of 155 written premium transactions during the period October 1, 2013 to March 31, 2014, which included the following: (a) a sample of 150 written premium transactions across 26 insurance companies for internal control testwork and (b) a sample of 5 written premium transactions across 4 insurance companies for substantive testwork. We noted the following exceptions:

- A $6 refund was issued to the insured as a result of an increase in coverage requested upon policy renewal. Per National Flood Services, their policy is to refund excess premiums up to $10 to agent commissions for reimbursement to the insured, rather than issuing the refund directly to the policyholder. However, per FEMA, this policy of reimbursing the insured through the agent is not allowed; refunds must be issued directly to the insured.
- For one policy, we were unable to verify Zone C as the historical zone per the historical FEMA flood maps. Using the current and only verifiable flood zone, Zone AO, we calculated a premium of $3,204 and a reserve fund amount of $160. We determined that the premium for this policy was undercharged by $1,309 and the reserve fund was undercharged by $65.
- For one policy, the elevation certificate used to originally rate the policy was unavailable, as this policy was a rollover from another insurance company, and that FEMA allows companies to continue to rate the policy using the zone information in effect when the policy was written.
- For one sample item that the policy relates to a pre-FIRM (Flood Insurance Rate Map) structure in a Special Flood Hazard Area which was mistakenly rated using the post-FIRM rating. Using the correct pre-FIRM rates, we calculated a premium of $224, a reserve fund amount of $15, an Increased Cost of Compliance (ICC) premium of $70, and a Federal Policy Fee of $44. We determined that the premium for this policy was overcharged by $268, the reserve fund was overcharged by $10, and the ICC premium was undercharged by $65. Selective corrected the error when it was discovered, reissued the policy using pre-FIRM rates, and refunded the excess premium to the policy holder on July 15, 2014.
- For one sample item the policy was effective 29 days after the premium receipt date. Per the National Flood Insurance Program (NFIP) Manual, a standard 30-day wait period is required for new business policies. We noted that the effective date was incorrectly calculated and should have been March 12, 2014.

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 the NFIP guidelines.

FEMA – FMC 14-02 – Deficiencies Identified over Claims' Case Reserves at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program as of February 28, 2014 and August 31, 2014 *(NFR Nos. FEMA 14-02* and *FEMA 14-02a)*

We selected 130 case reserve balances for testing at Write Your Own (WYO) insurance companies and vendors and the NFIP Direct Serving Agent.

Condition A
We noted the following exceptions related to management of case reserves at the WYO insurance companies:

- Six instances where the case reserve balance should have been reduced to zero when the claim was closed, resulting in the case reserves being overstated.
- One instance where the case reserve remained open related to a claim with a 1988 date of loss and should be closed without payment due to inactivity. As a result, case reserves are overstated by approximately $7,000.
- One instance where a claim was paid to the insured resulting in an overpayment of approximately $10,000 in 2005. The reserve did not account for the applied overpayment, resulting in an overstatement of approximately $10,000.
- Two instances where the case-loss reserve balances were not reduced when the claim was closed, resulting in the case-loss reserves being overstated.
- One instance where the case-loss reserve balance should have been updated to reflect the updated amount of the Final Report or Proof of Loss (POL), resulting in the case-loss reserves being overstated.

Condition B
We noted the following exceptions created by limitations in the WYO insurance company's or vendor's information technology system but not detected by management:

- One instance where the insurance company's information technology system prevented the claim file from closing after the final payment was made and consequently held the case reserves open, causing the case reserves to be overstated.
- Two instances where claim reserves were re-populated after the building claim was closed, causing the reserves to be overstated.

Condition C

- We noted 1 exception related to incorrect Transaction Record Reporting and Processing (TRRP) transactions submitted from the DSA to the third-party service provider.

Recommendations:
We recommend that FEMA:

- Follow up with each NFIP insurer identified above to determine that appropriate corrective action has been implemented to address the exceptions identified.
- Implement policies and procedures over the review of the TRRP system report of closed claims with outstanding case loss reserves to ensure all open reserves on closed claims are reduced to zero in a timely manner which may include an automated logic edit in TRRP to reject the closure of a claim with an outstanding case loss reserve balance (i.e., verify the reserves are properly at zero before a claim can be closed).
- Require NFIP insurers to develop and implement procedures to review transactions prior to submission to the third-party service provided.

FEMA – FMC 14-03 – Internal Control Deficiencies Identified over Claims Paid at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program as of March 31, 2014 *(NFR No. FEMA 14-03)*

We tested a total of 157 claim payments during the period October 1, 2013 to March 31, 2014. We noted the following exceptions:

- An insurance company did not obtain a Proof of Loss or Final Report prior to issuing the claim payment.
- Claim was paid without a signed Proof of Loss from the insured.
- Claim was paid without a 60-day Proof of Loss waiver from FEMA.
- Claim payment was issued 91 days after receipt of the Proof of Loss, despite claim file being complete and approved within 14 days of receipt of the Proof of Loss.
- Claim payment issued on October 29, 2013 for $13,000 was immediately voided after issuance because the payment included prohibited fees submitted by the adjuster. Upon receiving the updated adjuster's report, the examiner issued the claim payment in the amount of $13,000 on October 31, 2013. However, the $13 thousand payment was reported to the NFIP as paid on October 29, 2013 and not October 31, 2013.

Recommendations:
We recommend that FEMA:

- Follow up with each NFIP insurer identified above to determine that appropriate corrective action has been implemented to ensure compliance with the Standard

Flood Insurance Policy's Proof of Loss requirements.
- Enhance monitoring and oversight of the NFIP insurers to ensure claims files are processed and reviewed in accordance with NFIP guidelines before approval and issuance of claims.

FEMA – FMC 14-04 – Non-Compliance with 5 Code of Federal Regulations Part 2634 and 5 Code of Federal Regulations Part 2368 Related to Ethics Requirements *(NFR No. FEMA 14-13)*

- We selected a sample of 15 FEMA employees required to complete an ethics training course in calendar year 2013 and found that FEMA was unable to provide documentation to support, either through the FEMA Employee Knowledge Center transcripts or other relevant evidence (i.e. training sign-in sheets), that eight of the employees had completed the required ethics training in calendar year 2013.
- We selected a sample of 15 FEMA employees required to submit an OGE-278 in FY 2014 and identified that the ethics official had not completed their initial review of seven OGE-278 submissions within the timeframe specified by the Office of Government Ethics.
- We selected a sample of 25 FEMA employees required to submit an OGE-450 in FY 2014 and identified the following exceptions:
  - The ethics official had not completed their review of four OGE-450 submissions within the timeframe specified by the Office of Government Ethics.
  - One filer had not submitted their OGE-450 within the timeframe specified by the Office of Government Ethics.
  - One filer submitted an OGE-450-A for a second consecutive year and was not detected during the ethics official's review. The subsequent OGE-450 submission to correct this error was not considered timely as it was approximately eight months after the original OGE-450-A was filed.

Recommendations:
We recommend that FEMA:
- Consistently use 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.
- Ensure proper staffing resources are available to allow for the dedication of sufficient time to ensure compliance with relevant ethics requirements.
- Clarify the roles and responsibilities of Office of Chief Counsel, Office of Chief Component Human Capital Officer, and other supporting parties as they relate to identifying and executing the financial disclosure filing process, including identifying filers through position descriptions.

FEMA – FMC 14-05 – Issues Identified in Journal Voucher Testwork as of June 30, 2014 ***(NFR No. FEMA 14-14)***

Based on our testwork performed over a sample of 49 journal vouchers as of March 31, 2014, we identified the following exceptions:

- Two instances where the journal entry was recorded using the improper accounting period.
- One instance where the journal entry was not recorded timely. The journal entry was recorded in April 2014 to transfer Environmental Liabilities from Fund 90 Budget Fiscal Year (BFY) 2013 to Fund 90 BFY 2014. Environmental Liabilities were improperly recorded to the wrong BFY for the first half of the fiscal year.
- One instance where the funds were allotted instead of un-allotted at the time of the transfer, resulting in a negative allotment balance in the Web Integrated Financial Management Information System (WebIFMIS).
- One instance where the original journal entry had four accounting lines that all should have been set to automatically reverse in the next accounting period. Only three of four lines of this entry were actually set to automatically reverse, requiring a manual entry to correct the fourth line. The line not set to automatically reverse is a control deficiency.

Based on our testwork performed over a sample of 36 journal vouchers for the three months ending June 30, 2014, we identified the following exceptions:

- Two instances where the journal entry was recorded to correct journal entry HQ-14-FL-0220, which had been recorded using the improper "NEW" attribute and improper Budget Fiscal Year. These entries would have been unnecessary if the original entry had been recorded properly.
- One instance where the journal entry was recorded using the improper BFY and was a budgetary correction of an unobligated expenditure recorded using transaction code U2021AL, which is not compliant with the United States Standard General Ledger (USSGL). The USSGL does not provide for any transactions that allow the combination of *SGL 4972 Downward Adjustments of Prior-Year Paid Delivered Orders – Obligations, Refunds Collected* and *SGL 4610 Allotments – Realized Resources*. In an effort to correct the error, FEMA recorded a second non-compliant USSGL entry. The USSGL does not provide any transactions that allow the combination of *SGL 4982 Upward Adjustments of Prior-Year Delivered Orders – Obligations, Paid* and *SGL 4972 Downward Adjustments of Prior-Year Paid Delivered Orders – Obligations, Refunds Collected*.
- Two instances where journal entries were recorded using the discretionary attribute to reverse original journal entries recorded using the mandatory attribute

Recommendation:
We recommend that FEMA dedicate sufficient resources, including appropriate management oversight, to ensure journal vouchers are timely and thoroughly researched, reviewed, and approved prior to entry into WebIFMIS. Proper review should include determining the correct SGL accounts are used in the journal vouchers.

FEMA – FMC 14-06 – Ineffective Controls over the Preparation of the Annual Undelivered Order Certification *(NFR No. FEMA 14-17)*

FEMA reported the incorrect undelivered order balances by aging category on the June 30, 2014, annual undelivered order certification reported to DHS. DHS requested undelivered orders in the following aging categories: less than 360 days (1 year), 361 (1 year) – 720 days (2 years), 721(2 years) - 1,080 days (3 years), and greater than 1,080 days (3 years) respectively. FEMA instead provided the following aging categories: less than 1 year, 1 – 3 years, 3 - 5 years, and 5 plus years, respectively.

Recommendation:
We recommend that FEMA implement planned modifications to correct the aging categories reported in the quarterly response to DHS to reflect DHS' required aging categories in accordance with the DHS Component Requirement's Guide.

FEMA – FMC 14-07 – Ineffective Controls over Grant Accrual Journal Vouchers *(NFR No. FEMA 14-21)*

Based on our control testwork performed over the three journal vouchers used to record FEMA's June 30, 2014 Assistance for Firefighters Grants accrual model, we determined the amount recorded on the Bulk Journal Voucher approval coversheet did not agree to the related journal voucher.

Recommendation:
We recommend that FEMA dedicate sufficient resources to ensure journal vouchers are thoroughly reviewed and approved timely prior to entering them into WebIFMIS. Proper review should include that the Bulk Journal Voucher approval coversheet reflects exactly how the individual journal vouchers are recorded.

FEMA – FMC 14-08 – Inability to Link Systems to Significant Grant Programs *(NFR No. FEMA 14-23)*

FEMA lacked a comprehensive process to demonstrate that obligations, deobligations, and cash payments flowing through its grants related subsystems, which is necessary to conduct information technology and business process risk assessments of these subsystems to ensure controls were designed effectively. FEMA was unable to demonstrate the relationship of financial grant activities, including obligations, deobligations, and payments (undelivered order balances), reported in the general ledger system to the various subsystems used to perform the transactions and manage the operations of the various FEMA grant programs.

This information requested during the FY 2014 audit was the same information requested during the FY 2010 through FY 2013 audits. Per communication with FEMA, appropriate changes have not been made to remediate the finding related to the inability to link significant grant systems.

Per FEMA, "We will not provide PBC 185 (requested PBC)…"

Recommendation:
We recommend that FEMA dedicate the resources to implement a process to monitor which grant programs are flowing through which grant systems in order to facilitate the assessment of system-based controls over obligations, deobligations, and payments related to grant programs.

FEMA – FMC 14-09 – Certain Payroll Processing Control Deficiencies *(NFR No. FEMA 14-24)*

- Based on process walkthroughs and interim internal control testwork, we determined FEMA did not have effective policies and procedures for resolving leave error discrepancies. In a sample of 45 individuals with leave error discrepancies, we identified that for 25 leave errors, timekeepers were not aware of how to properly correct the errors within one pay period. Additionally, of those 25 leave errors, 12 were not properly corrected by year-end (Pay Period 19) and FEMA did not provide evidence that these leave errors were being actively reviewed and properly corrected.
- Based on process walkthroughs, we determined that FEMA did not perform a reconciliation between payroll data approved by FEMA supervisors and submitted through WebTA to the National Finance Center (NFC) and the payroll data included in the detailed information of the disbursement made by NFC for that pay period.
- In a sample of 45 personnel actions, we identified two sample items where the within grade increase evaluations were not approved by a supervisor and 1 sample item where the within grade increase evaluation could not be located. FEMA was unable to provide appropriate documentation of management approval of the 3 personnel actions noted.

Recommendations:
We recommend that FEMA:
- Develop, approve and implement standard operating policies and procedures for correcting leave error discrepancies, and provide training to the appropriate personnel to reinforce the standard operating procedures created.
- Develop and implement a control to reconcile payroll information submitted to the NFC through WebTA with the related information accompanying the disbursement made by NFC.
- Develop and implemental policies and procedures for processing personnel action forms which comply with Office of Personnel Management policies and procedures. Dedicate adequate resources to ensure personnel are adequately trained to process personnel action forms.

FEMA – FMC 14-10 – Deficiencies in the Budget Monthly Execution Report *(NFR No. FEMA 14-25)*

During FY 2014, management used a manual template-based process in order to prepare the monthly execution report. We noted Budget Planning and Analysis Division Integration Branch analysts could not provide appropriate documentation to adequately support certain amounts in the Supplemental/Emergency section of the monthly execution report.

Recommendation:
We recommend that FEMA dedicate sufficient resources to develop policies and procedures to prepare and review the monthly execution report or develop and implement alternative policies and procedures to monitor their budget against fiscal year spending to date.

FEMA – FMC 14-11 – Deficiencies Identified in the Web Integrated Financial Management Information System Chart of Accounts and Transaction Codes *(NFR No. FEMA 14-26)*

- Based on our review of the FEMA FY 2014 WebIFMIS Chart of Accounts, we noted seven subaccounts were mapped incorrectly or listed under the wrong primary account in FEMA's WebIFMIS Chart of Accounts.
- Based on our control testwork performed over 8 new transaction code request forms as of June 30, 2014 and 9 new transaction code request forms as of September 30, 2014, we identified the following:
  - Two transaction codes contained debit/credit combinations that were not USSGL compliant.
  - Four transaction codes that did not contain the related budgetary/proprietary entry required by the USSGL.

- Based on our substantive testwork performed over 35 active transaction codes as of June 30, 2014, we identified the following:
    - Fifteen transaction codes that contained debit/credit combinations that were not USSGL compliant.
    - Fifteen transaction codes 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 WebIFMIS Chart of Accounts to ensure it is in compliance with the USSGL.
- Develop a comprehensive transaction code crosswalk to determine whether WebIFMIS transaction codes are in compliance with the USSGL, why some transaction codes deviate from the USSGL, and document any limitations on the allowed usage of the transaction codes (e.g., special purpose transaction codes created for compliance with specific guidance).
- 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 14-12 – Ineffective Controls over Recoveries of Prior Year Unpaid Obligations *(NFR No. FEMA 14-27)*

Based on our recovery testwork performed over a sample of 45 de-obligations as of September 30, 2014, we noted FEMA did not provide the appropriate documentation to support the de-obligation for three sample items.

Recommendations:
We recommend that FEMA:
- Reinforce the standard policies and procedures over de-obligations to ensure proper adherence to existing policies regarding the review, approval, and documentation of de-obligations.
- Develop and implement a process requiring program-level individuals with appropriate knowledge of the activity to sufficiently document and approve de-obligations.
- Reiterate the responsibility and accountability for the maintenance of the supporting documentation for all de-obligations as well as the timely review and recordation of these transactions.

FEMA – FMC 14-13 – Ineffective Controls over the Quarterly Undelivered Order Validation *(NFR No. FEMA 14-28)*

During the FY 2014 audit, we selected a sample of 25 undelivered orders from the March 31, 2014 undelivered order consolidation. Per our analysis of the undelivered order owner's responses we determined that one undelivered order was correctly assessed as high-risk based off of the criteria established in FEMA's SOP - Monitoring the Management of Open Obligations. However, the undelivered order owner did not indicate a status of the undelivered owner. We inquired of FEMA regarding the absence of a status and were informed that the undelivered order did not have a status because the undelivered order was from a region which had failed to submit statuses of their undelivered orders in a timely manner.

Recommendation:
We recommend that FEMA re-emphasize the importance of timely reporting on the status of open undelivered orders to the regions and other undelivered order owners.

FEMA – FMC 14-14 – Improvements Needed in Management's Review of the Acceptable Variance Ranges *(NFR No. FEMA 14-29)*

Our review of the December 31, 2013 grant accruals revealed the following deficiencies within the September 30, 2013 SmartLink grant accrual process:

- The variance between estimated and actual liabilities exceeded the acceptable variance range threshold established by FEMA policy and was not adequately addressed.

Our review of the grant accruals and their related checklists resulted in a control failure related to the December 31, 2013 Smartlink accrual checklist task 12, "Investigate validation variances outside the acceptable variance range. Determine if further research is necessary." We noted that FEMA did not conduct follow-up over the variance that is established after inclusion of the Hazard Mitigation Grant Program journal voucher offset. As such, we consider FEMA's analysis insufficient and task 12 of the December 31, 2013 Smartlink accrual checklist incomplete.

Recommendation:
We recommend that FEMA thoroughly investigate, resolve, and formally document the resolution of large variances between estimated and actual advances and liabilities, including assessing the reasonableness of the estimation methodology including the effects of the inclusion of the Hazard Mitigation Grant Program journal voucher and any other adjustments to the grant accrual estimates.

FEMA – FMC 14-15 – Need for Additional Guidance on Accounting for Direct Loans *(NFR No. FEMA 14-31)*

During our review of the September 30, 2014, FEMA financial statements, we noted that the net loans receivable balance (SGL accounts 1341, 1350 and 1399) was abnormal in the amount of ($33 million). The negative balance was the result of FEMA recording a subsidy allowance calculated using both historical and projected loan disbursements. We asserted that the amount of the subsidy allowance recorded should be based only on historical loan disbursements as of September 30, 2014.

Recommendation:
We recommend that FEMA re-evaluate and document their year-end policies and procedures to account for subsidies related to loan receivable amounts outstanding at year-end in accordance with Statement of Federal Financial Accounting Standards No. 2, *Accounting for Direct Loans and Loan Guarantees*, paragraph 12. This may include consultation with the U.S. Department of the Treasury, OMB, and the Federal Accounting Standard Advisory Board to gain additional guidance regarding the appropriate accounting for FEMA's direct loan program.

IV. FEDERAL LAW ENFORCEMENT TRAINING CENTERS (FLETC)

FLETC – FMC 14-01 – Invalid and Inaccurate Undelivered Orders *(NFR No. FLETC 14-01)*

We determined controls over the quarterly undelivered order verification and validation analysis were not operating effectively as of June 30, 2014 based on the following:

- During testwork over a statistical sample of three items from the inactive population (those with no activity within the last twelve months), we determined that two of the "inactive" items were incorrectly categorized by management on the verification and validation analysis. One item was incorrectly categorized as a "Status 1" and the other item was incorrectly categorized as a "Status 1" or a "Status 2" rather than a "Status 3" or "Status 4" as both items had expired periods of performance and no activity on the obligations.

Recommendation:
We recommend that FLETC Finance Division work with the FLETC Procurement Office and end-users during the review of undelivered orders to ensure undelivered orders are properly coded and categorized in the quarterly undelivered order verification and validation report.

FLETC – FMC 14-02 – Lack of Effective Controls over Asset Additions *(NFR No. FLETC 14-02)*

During testwork over a sample of six fixed asset additions for the period October 1, 2013 through June 30, 2014, we identified one sample item where the final payment related to the construction in progress project was not properly included in the value of the final asset, which had been placed in service. The expense related to the final payment was identified in the June general ledger account 1720 review; however, as of August 27, 2014 no actions had been taken to include the final payment amount as a betterment to the final asset. Total payments made related to the asset were $11.062 million, but the asset value was only recorded as $11.053 million.

Recommendation:
We recommend that FLETC continue adherence to its formalized policies and procedures for property, plant, and equipment capitalization to ensure assets are capitalized timely.

FLETC – FMC 14-03 – Untimely Reimbursable Agreements / Abnormal Balances *(NFR No. FLETC 14-03)*

During our review of the trial balances and DHS Treasury Information Executive Repository analytic reports as of June 30, 2014, we noted in Treasury Account Fund

Symbol 703/70510, general ledger account 4610, Allotments – Realized Resources, had an abnormal balance of approximately $13 million.

Recommendation:
We recommend that the FLETC implement a formalized procedure to ensure that multi-year reimbursable construction funds carryover budget authorities which have been apportioned by the Office of Management and Budget are promptly apportioned, allotted and recorded in the financial system.

FLETC – FMC 14-04 – Incorrect Trading Partner Coding *(NFR No. FLETC 14-04)*

During substantive testing of unfilled customer order activity for the period of October 1, 2013 to September 30, 2014, we noted one credit sample out of four that had the incorrect trading partner associated with the vendor. The U.S. Capital Police, trading partner 02, was incorrectly configured to trading partner 03, which is the Library of Congress.

Recommendation:
We recommend FLETC implement the internal system controls available within the Momentum 7.1.2 financial system to ensure vendor agency and bureau information remains current and accurate.

FLETC – FMC 14-05 – Non-Compliance with Financial Disclosure Filing Requirements *(NFR No. FLETC 14-05)*

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

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

Recommendation:
We recommend that the FLETC continue to follow its formalized procedures for processing financial disclosure forms in accordance with the Code of Federal Regulations by monitoring the completion of these forms in a timely manner, and to ensure that the policy includes guidance on unique or unusual circumstances for the completion of these forms.

V. UNITED STATES CITIZENSHIP AND IMMIGRATION SERVICES (USCIS)

USCIS – FMC 14-01 – Deficiencies in the Recording of Property, Plant, and Equipment *(NFR No. USCIS 14-01)*

During the review of prior period adjustments, we identified the following:

- The development of National Appointment Scheduling System Release 1.0.0.0 was not recorded timely and costs were not properly capitalized.
- The disposal of Requirements Improvement Program Release 1.0 was not recorded timely and internal use software was overstated.
- The acquisition and depreciation of equipment was not recorded timely.

We performed testwork over internal use software additions as of June 30, 2014 and noted the following:

- The deployment of Enterprise Service Bus – Lockbox Intake Service Release 2.0 was not recorded timely.
- The deployment of Freedom of Information Processing System Release 7.1 was not recorded timely.

Recommendations:
We recommend that USCIS:

- Continue with its newly established Release Planning Review approval process, as documented in the revised Office of Information Technology internal use software Standard Operating Procedure dated April 1, 2014. The newly established Release Planning Review approval process requires that internal use software reportable releases are identified prior to the onset of any software development efforts and therefore mitigates the re-occurrence of this condition.
- Ensure personnel are aware of policies and procedures related to the receipt of assets, and change in the status of assets. This includes the deployment of software or the impairment or disposal of an asset, which must be reported, recorded, and documented at the time the asset was received or the status changed. Those personnel identified as having responsibility for this reporting must complete available property management training.

USCIS – FMC 14-02 – Deficiencies in the Timely Recording of Obligations *(NFR No. USCIS 14-02)*

During testwork over 21 undelivered orders selected as June 30, 2014, we noted that the obligation was signed on September 30, 2013, however the funds were not obligated within the general ledger until November 27, 2013. Additionally, the period of performance began and services were rendered prior to obligation in the general ledger on October 1, 2013.

Recommendation:
We noted that policies and procedures were established April 30, 2014 which address the condition of this finding. However, we recommend that the Financial Compliance and Systems Branch will evaluate the design and effectiveness of the established procedures through the mission action plan process.

USCIS – FMC 14-03 – Deficiencies in the Approval of Apportionment Entries to Federal Financial Management System *(NFR No. USCIS 14-04)*

Two apportionment transactions out of a sample of 43 were not reviewed and approved by a supervisor prior to recording the transaction in the Federal Financial Management System (FFMS). The transactions were posted to the general ledger on May 27, 2014; however, the physical print out of the Apportionment Transaction Screen was never reviewed and approved by a supervisor. As a result, $304.9 million was apportioned in the incorrect quarter, prior to being detected and corrected on the same day.

Recommendations:
We recommend that USCIS:
- Ensure all employees with responsibility for entering apportionment transactions in the general ledger are aware of and implement the procedures outlined in the Budget Manual.
- Supervisory Budget Analysts continue to monitor apportionments to ensure compensating controls are functioning effectively.

USCIS – FMC 14-04 – Inaccurate and Unsupported Data in the CLAIMS 3 CLAIMS 4 and MFAS Systems *(NFR No. USCIS 14-04)*

We conducted test work over the FY 2014 third quarter floor-to-list audit and noted the following:
- One sample item was not included within the Citizenship and Immigration Services Centralized Oracle Repository deferred revenue universe, the system used to generate the deferred revenue population from the CLAIMS 3 system. The file was present in the CLAIMS 3 system mainframe, but was not properly extracted by Citizenship and Immigration Services Centralized Oracle Repository because it had a status of “0” or “unknown.”

We conducted test work over the FY 2014 third quarter list-to-floor audit and noted the following:
- For two of the 680 samples, we reviewed the physical application and determined one application was adjudicated and another application was not adjudicated as of May 20, 2014. However, USCIS's sampling results included a different status as of May 20, 2014.

- For 139 of the 680 samples, USCIS was unable to provide a physical application to support the applications' status. We noted that it was USCIS's policy to treat all unsupported samples as "not pending."
- For five of the 680 samples, the fee per the sample did not agree to the fee per the historic fee table, based on the form type and receipt date. USCIS was unable to provide support for these the fee per the sample related to older applications.
- For 94 of the 680 samples, the samples were listed as pending in the application tracking system but we determined that these samples were not pending based on review of the physical application. Of these samples, USCIS identified 94 of them to be not pending. This indicated that the information in the application tracking systems, CLAIMS 3, CLAIMS 4 and MFAS, was not reliable for financial reporting purposes and that there are deficiencies in the internal controls that govern the information in these systems, resulting in the need for the deferred revenue estimation methodology
- The deferred revenue quarterly sampling and verification process identified discrepancies in the status of applications where errors between the system query results and the hard copy application exist; however, all identified errors were not corrected within the systems. Although consideration of the faulty data was included in the monthly estimation of deferred revenue, the inclusion of faulty data presented an environment where the conditions in the NFR will be present in subsequent quarterly sampling and verification.

We conducted test work over the FY 2014 4th quarter list-to-floor audit and noted the following:

- For 1 of the 45 samples, the fee per the sample did not agree to the fee per the historic fee table. USCIS was unable to provide an explanation or support for the difference related to an older application.

Recommendations:
We recommend that USCIS:
Related to sampling methodology:

- Consult statisticians to verify the adequacy of the existing sample design and implement recommended changes for FY 2015, improving efficiency in both the sample selection and field verification process. Consider the following:
  - Analyzing year over year changes to assess if changes to sample design need to be made. Additionally, quarter over quarter assessments should be made to adjust sample sizes within the year if needed.
  - Demonstrating, on a quarterly basis, that the proposed sample design meets the SOP requirements of sub-sections 4.4.1.2a – c.

- USCIS should document the precision it is targeting and factor in an expected error rate during their sample design to show that the sample design meets its precision targets at the associated confidence level.
- If USCIS uses the same sample design and sample sizes year over year, implement a procedure to perform an analytical analysis to prove the assertions in their SOP.
- Demonstrating the adequacy of the sample sizes based on current analysis, including determining whether an adjustment to the distribution of the sample by reallocating the total sample size to provide additional coverage over certain strata, which may help achieve an overall tighter precision estimate.
- Reassessing the sample design in FY 2015 to ensure its targeted projections and precisions do not exceed an established internal materiality threshold.
- Ensuring the standard deviation used in the projected calculation of precision reflects the entire sample.
- Projecting the difference in audit amount (error) rather than the audit amount currently used, as the key test indicator for this area is the potential adjustment.

- Continue to increase the number and type of applications required to be processed through ELIS and ensure the application will allow for the direct reporting of deferred revenue. The controls over the application status should eventually allow USCIS to retire their legacy tracking systems and replace their current estimation process

USCIS – FMC 14-05 – Deficiencies in the Public and Confidential Financial Disclosure Financial Reporting Process *(NFR No. USCIS 14-05)*

- During test work over OGE Form 278 financial disclosure reports, we noted one of the 15 samples was not reviewed and certified by the Ethics Officer within 60 days of filing.
- During test work over OGE Form 450 financial disclosure reports, we noted eight of the 25 samples were not reviewed and certified by the Ethics Officer within 60 days of filing.

Recommendations:
We recommend that USCIS:

- Ensure that necessary enhancements are made to their policies and procedures to ensure the timely notification to and submission by employees of OGE Forms 450 and 278.
- Ensure all employees with responsibility for completing or reviewing the financial disclosure reports are aware of and implement the policies and procedures.

Department of Homeland Security
Financial Management Comments
September 30, 2014

VI. UNITED STATES IMMIGRATION AND CUSTOMS ENFORCEMENT (ICE)

ICE – FMC 14-01 – General Property, Plant, and Equipment Additions and Deletions *(NFR No. ICE 14-03)*

Controls were not operating effectively to ensure that capitalized assets were timely and accurately recorded in the Sunflower Asset Management System and the general ledger. Specifically we noted three of the additions selected for testwork related to assets that should not have been recorded in Sunflower Asset Management System as they were already recorded in another property subledger. Additionally, we noted a disposal related to the theft of property was not removed from the general ledger timely. Both of these resulted in an overstatement of the property, plant, and equipment general ledger balance.

Recommendation:
We recommend that ICE implement procedures for a review of all capitalized assets prior to recording to the general ledger.

ICE – FMC 14-02 – Approval of Personnel Actions – Administrative Uncontrolled Overtime *(NFR No. ICE 14-09)*

The Summary of Administrative Uncontrollable Overtime forms to support administrative uncontrolled overtime payments to employees could not be provided timely.

Recommendation:
We recommend that ICE continue to enhance policies and procedures regarding the approval and changes related to Administrative Uncontrolled Overtime, including document retention.

ICE – FMC 14-03 – OGE-450 Form: Confidential Financial Disclosure Report and OGE-278 Form: Public Financial Disclosure Report *(NFR No. ICE 14-13)*

OGE-450 Reports:
Based on our walkthrough conducted in the current fiscal year we note the following control weaknesses:

- Existing controls were not fully effective to track all Confidential Financial Disclosure reports (OGE 450).
- Existing controls are not operating effectively to ensure all forms are certified by the Ethics Office within 60 days.

OGE-278 Reports:

- Existing controls are not operating effectively to ensure all Public Financial Disclosure reports (OGE 278) are certified by the Ethics Office within 60 days. We selected a sample of 15 OGE 278 reports for testwork, noting one form was not certified within 60 days of filing. The filer disclosed several transactions which required additional review and research.

Recommendation:
We recommend that the ICE Ethics Office continue implementing the e-filing system acquired in FY 2014.

ICE – FMC 14-04 – Apportionments *(NFR No. ICE 14-16)*

Controls were not operating effectively to ensure funds were appropriately presented as either available or unavailable in the financial statements. Specifically, we noted:

- Balances recorded in the unapportioned balance as of September 30, 2014 should have been recorded as Apportioned in the General Ledger.
- The Apportionment and Reapportionment Schedule (Standard Form (SF)-132) to the Report on Budget Execution and Budgetary Resource (SF-133) reconciliation was not performed appropriately

Recommendations:
We recommend that ICE:

- Review and enhance existing policies and procedures for recording budget authority and performing the SF-132 to SF-133 reconciliation.
- Review and revise year-end closing processes and procedures to address erroneous impact on apportioned and unapportioned balances.

ICE – FMC 14-05 – Completeness of the Lease Footnote Disclosure and Timely Capitalization of Leasehold Improvements *(NFR No. ICE 14-17)*

Controls were not operating effectively to ensure the lease footnote disclosure was complete and accurate and that executed occupancy agreements were recorded timely. Specifically, we noted:

- Five instances in which non-cancellable occupancy agreements future minimum lease payments were recorded based on incorrect versions of the occupancy agreements as of September 30, 2014.
- One instance of future minimum lease payments that were incomplete based on costs reported to ICE through the Real Property Management System.
- One instance of future minimum lease payments, recorded on the footnote that were recorded in the wrong year.

Recommendation:
We recommend that ICE should perform a review of all occupancy agreements, and Real Property Management System data, to ensure completeness and accuracy of reported future minimum lease payments prior to update in the financial system.

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

MGA – FMC 14-01 – Invalid and Inaccurate Undelivered Orders *(NFR No. MGA 14-01)*

We determined controls over the undelivered order verification and validation were not operating effectively as of June 30, 2014. We selected a statistical sample of six items from the "active" sub-population (based on I&A/OPS' designation) and noted that two of the "active" undelivered orders had periods of performance that had expired or had no activity against the obligation within the last 12 months and management incorrectly categorized them as "Status 2" rather than "Status 3" or "Status 4."

Recommendation:
We recommend that MGA work with FLETC and the servicing Procurement Office for adequate review of undelivered orders to ensure undelivered orders are properly coded and categorized in the quarterly undelivered order analysis verification and validation report.

MGA – FMC 14-02 – PRISM to Momentum Reconciliation *(NFR No. MGA 14-02)*

During walkthroughs, we noted that FLETC was not performing a reconciliation of PRISM obligations to obligations recorded in Momentum for MGA) We noted that FLETC was performing a reconciliation of USASpending data to Momentum; however we noted that the USASpending did not include all activity in PRISM and was not reconciled against PRISM.

As a result of the above finding, FLETC performed a reconciliation of PRISM to Momentum at year-end, covering FY 2008 through FY 2014, which identified immaterial differences between PRISM and Momentum. During our testing of this reconciliation, we noted one item recorded in both PRISM and Momentum at $380,000; however, the item was entered as $3.8 million on the reconciliation, but no difference was identified due to a formula error in the reconciliation.

Recommendation:
We recommend that FLETC use the PRISM Reports, in addition to the USASpending data to reconcile obligations.

MGA – FMC 14-03 – Untimely Recording of Undelivered Orders *(NFR No. MGA 14-04)*

During testwork over a sample of seven undelivered order credit transactions for the period October 1, 2013 through September 30, 2014, we identified one sample item that was properly approved by contracting in March of 2014; however the obligation was not recorded into Momentum until August 2014. We noted the amount of the unrecorded obligation was $2.9 million, which was not recorded timely and thus was not included in the undelivered order balance as of June 30, 2014.

Recommendation:
We recommend that MGA continue to follow-up outstanding commitments/purchase requests for signed copies of interagency agreements and/or contracts and submit them to FLETC for timely recording of obligations.

MGA – FMC 14-04 – Statement of Net Cost Methodology *(NFR No. MGA 14-05)*

In reviewing MGA's FY 2014 manual statement of net cost financial statement and footnote template, we noted that the missions that the way MGA aligned their activities changed from FY 2013 to FY 2014 as the percentage allocations for each mission were different and did not align with the programs/missions in the approved strategic plan.

Recommendation:
We recommend that MGA work with FLETC, their financial service provider, and the DHS Chief Financial Officer Program Analysis and Evaluation office to ensure the manual statement of net cost template allocations by DHS strategic goal aligns with the current DHS Strategic Plan.

VIII. MANAGEMENT DIRECTORATE (MGMT)

MGMT – FMC 14-01 – Approval of Personnel Actions *(NFR No. MGMT 14-01)*

For two of the 30 samples selected, controls were not operating effectively to ensure that individual cash awards were appropriately authorized and the calculated pre-tax award amount was inaccurately applied.

Recommendations:
We recommend that MGMT:

- Ensure that processors are properly trained.
- Implement a QA process to review actions prior to process.
- Update cash award forms to properly handle taxes.

MGMT – FMC 14-02 – New Hire Controls *(NFR No. MGMT 14-08)*

For one of the three sample selected, controls were not operating effectively to ensure benefit expense amounts were recorded at the correct amount. Specifically, during our testing of employee benefit expenses, we noted an employee was coded incorrectly to the wrong agency for a year. When the incorrect coding was identified, all of the employee benefit expense amounts for the affected pay periods were reclassified to MGMT.

Recommendations:
We recommend that MGMT:

- Ensure that processors are properly trained.
- Implement a quality assurance process to review actions prior to processing.

MGMT – FMC 14-03 – Financial Reporting – General Journal Entry *(NFR No. MGMT 14-09)*

Preparation and review of journal entries were not designed at a level of precision to prevent improper posting of manual journal entries. We inspected the manual journal entry populations for ICE, MGMT, and NPPD, noting a number of correcting entries to previously posted entries. Additionally, we noted that for some entries supporting documentation and back-up for the journal entry was not sufficient to fully support and explain the purpose and/or need for the entry.

Recommendation:
We recommend that MGMT work with ICE to review the current documented general journal process and ensure proper controls are in place and adhered to.

MGMT – FMC 14-04 – Inadequate Third Party Documentation to Support Leases and Related Leasehold Improvements ***(NFR No. MGMT 14-10)***

Controls were not fully effective over the accounting of lease and related leasehold improvements to ensure proper documentation was available to support the projects recorded in the financial statements. Specifically, for one sample out of four selected, we noted third-party documentation was not available to support leasehold improvements that were placed into service in FY 2014.

Recommendation:
We recommend that MGMT develop and implement internal controls to ensure proper supporting documentation is obtained and retained to evidence the in-service date of leasehold improvements.

IX. NATIONAL PROTECTION AND PROGRAMS DIRECTORATE (NPPD)

NPPD – FMC 14-01 – Approval of Personnel Actions *(NFR No. NPPD 14-01)*

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

Recommendation:
We recommend that NPPD complete second level reviews of actions prior to submission to NFC for processing.

NPPD – FMC 14-02 – Time and Attendance *(NFR No. NPPD 14-02)*

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 the following:

- Supporting documentation was not available to evidence leave approval when request was not processed within the WebTA system.
- Timesheets were approved by individuals who were not included on the listing of personnel with the supervisory role in WebTA. Documentation as to why these individuals were not included on the listing was not readily available.

Recommendations:
We recommend NPPD:

- Provide guidance to supervisors and/or approved certifiers of timecards on the importance of ensuring documentation of approval is available prior to certifying timecards.
- Documentation is available when individuals on the list of approved certifiers are unavailable to approve timesheets and other individuals have been authorized to certify timecards.

NPPD – FMC 14-03 – FFMS to PRISM Reconciliation *(NFR No. NPPD 14-03)*

Policies and procedures were drafted by the NPPD and placed into operation throughout the fiscal year; however, the formal SOP was not formally issued to the organization.

Recommendation:
We recommend that NPPD sign and formally issue the SOP.

NPPD – FMC 14-04 – Financial Reporting – General Journal Entry *(NFR No. NPPD 14-09)*

Preparation and review of Journal entries were not designed at a level of precision to prevent improper posting of manual Journal entries. We inspected the manual journal entry populations for ICE, MGMT, and NPPD, noting a number of correcting entries to previously posted entries. Additionally, we noted that for some entries supporting documentation and back-up for the journal entry was not sufficient to fully support and explain the purpose and/or need for the entry.

Recommendations:
We recommend that ICE to review the current documented general journal process and ensure proper controls are in place and adhered to.

NPPD – FMC 14-05 – Travel Expense Authorization and Approval *(NFR No. NPPD 14-10)*

Controls were not operating effectively to ensure that employee travel was authorized timely; we noted two instances where travel was not authorized prior to travel dates.

Recommendation:
We recommend that NPPD improve the processes of reviewing and approving travel authorizations to ensure gross costs are recorded in the general ledger appropriately.

X. SCIENCE & TECHNOLOGY DIRECTORATE (S&T)

S&T – FMC 14-01 – Undelivered Orders Analysis *(NFR No. S&T 14-01)*

Controls were not operating effectively to track and monitor undelivered order balances and activity. Specifically, we noted a DHS Working Capital Fund obligation was assigned the incorrect status during the undelivered order analysis review.

Recommendation:
We recommend that S&T improve processes with program offices to ensure that during the undelivered order verification and validation, undelivered orders are assigned to the correct status.

S&T – FMC 14-02 – Untimely Recording of Obligation Activity to the General Ledger *(NFR No. S&T 14-02)*

Controls were not operating effectively to ensure obligation activity was supported by appropriate documentation and was recorded timely to the general ledger upon execution of obligations or notification of credits received via the Intra-Governmental Payment and Collection process.

Recommendation:
We recommend that S&T improve processes with program offices to ensure the timely recording of obligations.

S&T – FMC 14-03 – Statement of Net Cost *(NFR No. S&T 14-03)*

Policies and procedures were not in place to ensure that the statement of net cost footnote was accurately presented in accordance with the allocation methodology prior to submission to DHS Office of Financial Management.

Recommendation:
We recommend that S&T implement policies and procedures to review Statement of Net Cost template to ensure proper allocation of costs in accordance with the approved component methodology.

S&T – FMC 14-04 – Unfilled Customer Orders *(NFR No. S&T 14-04)*

S&T lacked sufficient policies and procedures that document the processes and controls in place to ensure unfilled customer order balances existed and were recorded timely and appropriately in the general ledger. Specifically, we determined that a $26.4 million unfilled customer order balance recorded in the general ledger as of September 30, 2014 was not accurate and should not have been recorded as an unfilled customer order.

Recommendation:
We recommend that S&T implement policies and procedures to ensure all unfilled customer orders recorded in the general ledger are supported by a valid customer order.

XI. Transportation and Security Administration (TSA)

TSA – FMC 14-01 – Ineffective Controls over the Time and Attendance Process *(NFR No. TSA 14-01)*

During our FY 2014 site visits to airports we noted that controls over time and attendance were not fully effective. We noted the following:

- Controls over the review and approval of timesheets are not operating effectively. Specifically, we noted:
  - Three of 56 instances where overtime requests were not approved prior to the employee working the overtime hours.
  - One of 56 instances where the employee's WebTA approver validated the employee's timesheet with actual overtime hours worked improperly classified as base hours worked.

During our FY 2014 testwork over, we noted that controls over time and attendance were not fully effective. We noted the following:

- Controls over review and approval of timesheets are not operating effectively. Specifically we noted:
  - Two of 14 instances where leave request approval documents (Office of Personnel Management-71 forms) could not be provided.
  - One of 14 instances where leave was taken prior to supervisor approval.

During our FY 2014 site visits to the Federal Air Marshal Service field offices, we noted that controls over time and attendance were not fully effective. We noted the following:

- Controls over review and approval of timesheets are not operating effectively. Specifically, we noted:
  - One of 58 instances where sick leave was not approved until after the pay period ended.

Recommendations:
We recommend that TSA:

- Continue to provide guidance, updated job aids and refresher training on governing policies for leave and overtime approvals and procedures for the use of Electronic Time, Attendance, and Scheduling system and WebTA.
- Continue to conduct monthly meetings with the payroll user community to gather concerns and to provide training focusing awareness on maintaining effective controls over time and attendance processes and proper time and attendance recordation.

- Remind those involved with the Federal Air Marshal Service to adhere to local guidelines established for the minimum time frame to submit and approve leave requests.

TSA – FMC 14-02 – Entity-Level Controls *(NFR No. TSA 14-02)*

We noted controls were not operating effectively to ensure performance plans include the minimum required training standards. Specifically we noted three of 15 FY 2014 Financial Management Division performance plans did not include reference to compliance with the Financial Management Division training curriculum.

Recommendations:
We recommend that TSA:

- Continue to use performance plans to foster employees' individual and career development and ensure compliance with the Financial Management Division Training Curriculum.
- Review all performance plans to ensure compliance with the Financial Management Division Training Curriculum.

TSA – FMC 14-03 – Inadequate Review of Personnel Actions *(NFR No. TSA 14-03)*

Controls over review of personnel actions were not operating effectively. Specifically, we noted one instance 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 this instance.

Recommendations:
We recommend that TSA:

- Enhance the scope of its biweekly request for personnel actions oversight audits to highlight and review compliance of segregation of the processing and quality assurance review for all personnel actions.
- Review all aspects of the Service Provider's Quality Assurance program for all personnel actions processing including new hires to ensure it is operating effectively and in compliance with Federal regulations, policies, internal procedures and processes

TSA – FMC 14-04 – Intra-Governmental Payment and Collection Review Controls *(NFR No. TSA 14-04)*

In response to past NFRs, TSA implemented a process in FY 2012 to review Intra-Governmental Payment and Collection (IPAC) transactions in order to properly clear these transactions from suspense. Under this new policy, all IPAC transactions are reviewed, validated, and approved by the appropriate TSA point of contact (Contracting

Officer or Contracting Officer's Representative) prior to being cleared from the suspense account and recorded as an expense. We noted, however, in the current year, certain IPAC transactions, including intra-DHS Working Capital Fund charges, were not subjected to this review process.

- Controls were not fully in place to document review of all categories of IPAC payments, specifically Working Capital Fund payments. We noted in one instance out of 30, there was no evidence of approval for the IPAC.
- Controls were not operating effectively to ensure that adequate supporting documentation exists for IPAC payments. Specifically, we noted in one instance out of 30, there was no matching of the contract number per the purchase order to the contract number per the IPAC prior to payment.

Recommendations:
We recommend that TSA:

- Financial Management Division should work with the Budget Performance Division to ensure the Working Capital Fund IPACs are maintained, reconciled, liquidated, and closed out in a timely manner.
- Budget Performance Division should approve and obligate the Working Capital Fund financial transactions as prescribed in the Unassisted interagency agreements in FY 2015.
- Financial Management Division should monitor the Finance Center's Authorized Certifying Official review on approving IPACs to ensure that proper matching of the contract to the IPAC.

TSA – FMC 14-05 – Undelivered Orders Controls – Validation and Verification *(NFR No. TSA 14-05* and *TSA 14-05a)*

TSA's policies and procedures were not operating effectively to ensure liquidation of remaining stale obligation balances on a timely basis for financial reporting purposes. Specifically we noted:

- During our interim recoveries of prior year unpaid obligations substantive testwork, we noted one instance out of three in which the remaining funding of a contract with an expired period of performance and completion certificate per the undelivered order verification and validation was not appropriately included in the undelivered order adjustment provided to DHS for FY 2013.
- At year end, we noted TSA has not accurately classified their undelivered orders in the verification and validation process in support of the DHS on-top adjustment. Specifically, $110 million of undelivered orders were classified as status 2 "under review."

Recommendations:
We recommend that TSA take the following corrective action:

- TSA should update its business process for defining statuses at year-end with regard to the Component required on-top adjustment.
- TSA should categorize documents as a "Status 4" for those noted in the fiscal year end verification and validation as "Closeout Initiated."
- TSA work with the Department to provide specific business process rules to be used across all components when categorizing undelivered order balances into the various statuses on the CFO report.
    - Clear established rules for the categorization of undelivered order documents should be presented by DHS to the components early enough in the fiscal year so that components can effectively manage the undelivered order verification and validation process within these business rules throughout the fiscal year.
    - These rules should not be revised after the second quarter in the fiscal year as changes to these rules could require modifications to component business processes for undelivered order verification and validation.

TSA – FMC 14-06 – Contract Administration *(NFR No. TSA 14-06)*

Controls were not operating effectively to ensure contracts were effectively administered, including executing modifications timely to extend contract periods of performance when services were still being received from the vendor. Specifically, in our testwork performed over undelivered orders, we noted two obligations for which a contract modification was executed after the contract period of performance expired – in particular, one of the modifications was executed after our sample request date.

Recommendations:
We recommend that TSA take the following corrective actions:

- TSA should review policies and procedures associated with period of performance and develop controls to ensure that all period of performance are accurate
- The Office of Acquisition should emphasize to the Contracting Officers the need to ensure periods of performance on all contract or Other Transaction Agreement vehicles remain valid
- Contracting Officers should ensure that all invoices are certified in a timely and appropriate manner, even though the certification may have been delegated to the Contracting Officer's Representative.

TSA – FMC 14-07 – Travel Authorization and Expenditure Support *(NFR No. TSA 14-07)*

During testwork over the approval, coding, and recording of travel authorizations and vouchers, we noted controls over the travel authorizations were not operating effectively. Specifically, we noted:

FedTraveler (October FY 2014- June FY 2014)

- In one instance out of 31, 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.
  Concur (June FY 2014-September FY 2014)
- Due to Concur system report limitations, not all Centrally Billed Account offices were consistently performing 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.

Recommendation:
We recommend that TSA institutionalize Centrally Billed Account process changes and control improvements initiated in third quarter of 2014, prior to the implementation of E-Gov Travel Services 2.

TSA – FMC 14-08 – Insufficient Research of Intra-Departmental Trading Partner Differences *(NFR No. TSA 14-08)*

Controls related to journal entry reviews were not fully effective during the current year and controls over Intra-Departmental eliminations were not effectively implemented. Specifically we noted one sample item out of 19 that did not reflect the underlying events and transactions and was not consistent with the entity's accounting policies. Specifically, per the support provided related to the journal entry we note TSA improperly reclassified Intragov (I) expenses to Nongov (N). In our walkthrough performed over the Intra-Departmental elimination process, we noted the following:

- In the June 2014 TIER eliminations entry for expenses (SGL 610000), the absolute value of the amounts reclassified from Intra-Departmental to Non-Federal Expense was $17.6 million.
- In the September 2014 TIER eliminations entry for expenses (SGL 610000), the absolute value of the amounts reclassified from Intra-Departmental to Non-Federal Expense was $25.1 million.

Recommendations:
We recommend that TSA:

- Work with the Finance Center to generate a NON-GOV transaction detail for SGL 6100 for non-payroll activities (Budget Object Class not equal to 1%) to enhance the

current Trading Partner Identification Number (TPIN) detail reconciliation and review process to ensure review of vendor name for possible reclassification to/from Federal entity.
- Accounting Branch should continue to work with the Finance Center and TSA/Financial Management Division/Financial Systems Branch in monitoring invalid vendor IDs/vendor type identified in the monthly TPIN review, coordinating de-activation of vendor ID once all open documents have been cleared.
- Review existing SOP to ensure analysis and review that adjustments are within the materiality threshold for each component.

TSA – FMC 14-09 – Control Deficiencies Relating to OGE-278 and OGE-450 Forms *(NFR No. TSA 14-09)*

Controls over the submission and review of OGE 278 and 450 forms are not operating effectively.
During our work over OGE 278 filings, we noted:
- One of 15 instances involved an administrative error.
- Five of 15 instances where the forms were not certified timely – four of which had not been certified at the time of our review, which was on September 4, 2014.
- One of 15 instances where the OCC had not received timely notification of a new filer from the Office of Human Capital resulting in a late filing.
- Four of 15 instances where we were unable to inspect cautionary advice and as such, we were unable to conclude regarding appropriate remediation of potential conflicts on these samples.

During our work over OGE 450 filings, we noted:
- Six of 45 instances involved administrative errors.
- Three of 45 instances where ethics training was completed late.
- Two of 45 instances where forms were not submitted timely.
- Three of 45 instances where forms were not certified timely – all of which had not been certified at the time of our review, which was on September 4, 2014.
- Four of 45 instances where we were unable to inspect cautionary advice and as such, we were unable to conclude regarding appropriate remediation of potential conflicts on these samples.

Recommendations:
We recommend that TSA take the following corrective actions:
- TSA should review and revise its processes and procedures for identifying and notifying TSA employees required to file a financial disclosure report.
- TSA should train reviewing officials of the requirements and if they believe additional information is required from a financial disclosure filer, they are to request the necessary information by a specific date.

- TSA should also remind reviewing officials to follow-up with filers in a timely manner.
- TSA should review and revise its processes and procedures for notifying and reminding financial disclosure filers of their requirement to complete annual ethics training.

TSA – FMC 14-10 – Lease Accounting and Disclosure *(NFR No. TSA 14-10)*

Controls over the Master Lease Listing maintained by Chief Administrative Officer were not operating effectively to ensure leases were appropriately classified as cancelable versus non-cancelable. Specifically, we noted one instance in our testwork performed as of September 30, 2014 where the lease was incorrectly classified as non-cancelable and improperly included in the minimum lease payment footnote disclosure.

Recommendation:
We recommend that TSA Field Real Estate Services Division continue to collaborate with the Financial Management Division to develop policies and procedures and ensure critical financial reporting data elements are captured and communicated timely and accurately.

TSA – FMC 14-11 – Adjustments to Prior Year Obligations *(NFR No. TSA 14-11)*

Controls were not operating effectively to ensure obligations, to include upward and downward adjustments, were properly and timely reviewed and correctly recorded. Specifically, in our testwork performed over downward adjustments of prior year unpaid undelivered orders (Standard General Ledger (SGL) account 4871), we identified one instance where downward adjustments of prior year unpaid undelivered orders in the amount of $1.2 million were not recorded timely, as recoveries, based on the de-obligating document date. TSA was unable to provide the dual signed deobligating document as the original is filed at the Federal Records Center. The signature of the airport controller for the deobligation was dated September 16, 2013 and the recovery was not recorded in the general ledger until August 26, 2014.

Additionally, during our control testwork over the manual review of the prior year adjustment pool we noted one instance where downward adjustments of prior year unpaid undelivered orders in the amount of $1.2 million were not identified in the manual review of potential prior year adjustments.

Recommendation
We recommend that TSA:
- The Office of Acquisition should examine the award distribution process related to ‘Non-Central Information Management System’ generated obligations and ensure that effective controls are in place to accurately track the status of actions.
- Implement a process to review all prior year adjustment pools from previous month to determine which excluded prior year adjustment candidates should be recorded in the Core Accounting System as manual adjustments on a quarterly basis to ensure prior year adjustments are timely recognized.

TSA – FMC 14-12 – Property, Plant, and Equipment Controls *(NFR No. TSA 14-12)*

TSA lacked fully effective preventative controls to ensure that capitalizable transactions were recorded in the general ledger at the proper cost timely and relies upon detective controls at the Financial Management Division level to ensure complete and accurate financial reporting as of year-end.

Existing controls were not operating effectively to ensure that capitalizable costs related to Transportation Security Equipment (TSE) were completely and accurately recorded. Specifically, we noted:
- Seven instances where assets with a warranty, which was listed as a separate line item on each of the purchase orders for the assets, were capitalized as part of TSE capitalized cost rather than being recorded separately as a prepaid asset amortized over the life of the warranty.
- Two instances where IT equipment Switch Network upgrades were capitalized and immediately fully depreciated as their date placed in service was associated with a fully depreciated base asset.

Recommendations:
We recommend that TSA:
- Review policies and procedures for routine processing to address equipment delivered which separately identifies warranty costs.
- Work with Office of Security Capabilities to identify contracts with warranty costs as separate line items or contract holdbacks.
- Review policies and procedures for upgrades and peripherals to document procedures for upgrades which may extend the useful life of base units.

TSA – FMC 14-13 – Gross Cost Deficiencies *(NFR No. TSA 14-13)*

During our substantive testwork over undelivered orders and the non-federal accounts payable accrual, we noted the following deficiencies related to gross cost:

- Controls were not operating effectively at the program office level to ensure transactions are recorded using the proper object class code. We noted two instances 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 28 instances, in which a federal vendor was improperly coded as NONGOV.

Recommendations:
We recommend that TSA:

- Funds Control and Program Support Branch should work with the Budget and Performance Division to optimize object class use throughout TSA.
- Accounting Branch should continue to work with the Finance Center and TSA/Financial Management Division/Financial Systems Branch in monitoring invalid vendor IDs/vendor type identified in the monthly TPIN review, coordinating de-activation of vendor ID once all open documents have been cleared.
- Coordinate training with program offices in looking up vendor ID and using correct vendor ID with applicable vendor type when submitting the Purchase Request.

TSA – FMC 14-14 – Non-Compliance with the Federal Financial Management Improvement Act of 1996 *(NFR No. TSA 14-14)*

Federal Financial Management System Requirements

- TSA's financial accounting system automatically recorded transactions to current year obligations (i.e. to SGLs 4801, 4802, 4901, and 4902) regardless of the obligation's actual budget year. Therefore, TSA's Financial Management Division must perform a manual process to identify and adjust for any transactions that relate to a prior year budgetary resource.

USSGL Compliance

- Throughout our testwork procedures performed over internal use software, we noted that for one internal use software project (OASIS Cohort), TSA recorded development costs directly to gross cost (SGL account 1830) rather than recording to work-in-progress (SGL account 1832) and transferring to gross cost upon deployment of the enhancement.

Compliance with Federal Accounting Standards

During the course of the audit, we noted the following instances of immaterial non-GAAP practices which were not tracked via the non-GAAP listing:

- Research & Development - In our review of the Government Accountability Office (GAO) 2010 checklist, we noted TSA first answered that they had no research and development; however, we noted DHS reported in the FY 2013 Agency Financial Report research and development for TSA. This item should be tracked in their required supplementary stewardship information non-GAAP policy.

- Lease Accounting - Due to the nature of General Services Administration lease operations, there were instances where leases with General Services Administration (TSA is the lessee) expired; however, TSA was still occupying the space. The time between expiration and finalization of the new lease was referred to as "holdover" status. TSA performed an analysis over these leases and did not include leases in "holdover" status in their future minimum lease payment disclosure as the amounts have been immaterial. This was not tracked on the non-GAAP listing.
- Internal use software - we noted the estimation of cost involved in the Alternative Valuation of OASIS Cohort Assets is a non-GAAP policy. This was not tracked on the non-GAAP listing.
- IT Additions - During our property, plant, and equipment additions testwork, we noted two capitalizable assets which had been capitalized and immediately depreciated due to the date placed in service assigned to the assets. TSA corrected this error for the total number of assets affected – approximately $1 million. This was not tracked on the non-GAAP listing until September 30, 2014.

Recommendations:
We recommend that TSA:
Federal Financial Management System Requirements

- Financial Management Division's Accounting Branch should review all previous month's PYA pools for excluded transactions to determine manual adjustments on a quarterly basis to ensure PYA is properly recognized.

USSGL Compliance

- Review and implement the methodology for valuing capitalized OASIS work orders to assess ability to identify internal use software assets that could be tracked separately and record like any other internal use software asset to SGL account 1832 first.

Compliance with Federal Accounting Standards

Research and Development

- o The finding regarding the GAO checklist was remedied during the fourth quarter of FY 2014. FRAP-071 was submitted October 2, 2014 and showed the updated GAO checklist correctly reporting that TSA has research and development activities.

Lease Accounting

- o The Financial Management Division continues to work with the Field Real Estate Services Division during FY 2015 to fine tune the tracking and reporting of GSA occupancy agreements in "holdover" status for proper financial reporting impact, including tracking on the non-GAAP list if needed.

Internal Use Software

- TSA should review and implement the methodology for valuing capitalized OASIS work orders to assess ability to identify internal use software assets that could be tracked separately.

IT Additions

- TSA should review policies and procedures for upgrades and peripherals to document procedures for upgrades which may extend the useful life of base units.

TSA – FMC 14-15 – Accounts Receivable Accrual Deficiencies *(NFR No. TSA 14-15)*

TSA updated their accrual methodology for August and September 2014 passenger fee by increasing the estimate by 21.6% based on information provided by the Revenue Division. We noted at September 30, 2014, the accounts receivable balance and revenue was understated by $157 million. We confirmed this understatement via subsequent receipts per the Collections Information Repository Treasury report.

Recommendations:

We recommend that TSA:

- The Financial Management Division update the Accounts Receivable Accrual Internal Standard Operating Procedures (ISOP) ACCTG-1001 to create and implement quarterly cut-off procedure to evaluate and adjust the receivables accrual for financial reporting.
- The ISOP should include the process for the Revenue Division to document the rationale, calculation and basis for accrual projections.
- Financial Management Division should reconcile the collections to the accrual for a given month to determine if the accrual needs to be adjusted on a quarterly basis prior to quarter-ending month (i.e., quarterly review of previous three months' collection to the Daily Deposit Records (DDR)) should be completed prior to DEC-YYYY, MAR-YYYY, JUN-YYYY and SEP-YYYY financial reporting period). This reconciliation should be based on the initial DDR from the Revenue Division made available prior to TIER I adjustment submission for quarter-end.
- Financial Management Division should refine and improve the Revenue/Fee metrics for the Chief Financial Officer's certification to monitor the collections-to-accrual by month on a quarterly basis prior to quarter-ending month (i.e., quarterly review of previous three months' collections to DDR should be completed prior to DEC-YYY, MAR-YYYY, JUN-YYYY and SEP-YYYY financial reporting period).

XII. UNITED STATES COAST GUARD (USCG or Coast Guard)

USCG – FMC 14-01 – Financial Disclosure Reports *(NFR No. USCG 14-05)*

Controls over the Confidential Financial Disclosure Report (CFDR – OGE Form 450) and Public Financial Disclosure Report (PFDR – OGE Form 278) process were not fully effective during the current year. Specifically we noted that of the 50 samples tested, there were:

- Six instances in which the CFDR was completed subsequent to the February 15 filing deadline without evidence of a filing extension.
- Three instances in which, initially, the CFDR OGE 450-A was filed instead of the OGE 450 as required based on the office/position of the filer. As such, the subsequent filing of the OGE 450 was not completed prior to the February 15 filing deadline.
- Seven instances in which the CFDR was not reviewed timely (within 60 days of receipt of the signed form from the filer).
- Two instances in which the PFDR was not reviewed timely (within 60 days of receipt of the signed form from the filer).

Recommendation:
We recommend that the Coast Guard hold CFDR Program training for all PFDR and CFDR program coordinators emphasizing the importance of timely and thorough review. The training should be held PRIOR to kicking off the Coast Guard's PFDR and CFDR filing season which begins in January 2015. Training content will include the regulatory requirements relating to timeliness of filing and review as well as training on the technical requirements of the review process.

USCG – FMC 14-02 – Preparation of the U.S. Government Accountability Office Financial Audit Manual 2010 Checklist *(NFR No. USCG 14-06)*

Controls were not properly designed and implemented for FY 2014 to ensure proper preparation of the GAO Financial Audit Manual (FAM) 2010 Checklist. Specifically, we noted instances in which:

- Based on current operations and processes, USCG's response of "Y", "N", or "N/A" was not correct. For example, USCG answered "Y" to recording donated items at fair value at the time of donation; however, per USCG policies, donated items were valued at historical cost or the current weighted-average price.
- Coast Guard comments were not consistent to appropriately explain the response. For example, Coast Guard answered "Y" to a question regarding inventory acquired through exchange on nonmonetary assets; however, the accompanying comment indicated that the Coast Guard does not acquire inventory through exchange of nonmonetary assets.

- The Coast Guard comments indicated policies were not yet in place for processes in which policies have been documented. For example, Coast Guard indicated that a policy had not yet been developed related to land and land rights acquired for, or in connection with, other general PP&E; however, we note the Financial Reporting Management Manual includes such policies.

Recommendation:
We recommend that Coast Guard continue to refine the newly developed SOP and ensure the roles and responsibilities are executed properly in the preparation of the GAO FAM 2010 Checklist.

USCG – FMC 14-03 – New Hire Ethics Trainings *(NFR No. USCG 14-07)*

Controls over the new hire ethics training were not operating effectively. Specifically, we noted the following:

- Three out of 45 instances in which the ethics training was not completed within the first 90 days of hired date, and
- Nine out of 45 instances in which USCG was unable to provide supporting documentation to evidence the ethics training was properly completed within 90 days of the employee's duty.

Recommendation:
We recommend that Coast Guard verify information gathering capabilities of current Coast Guard Business Intelligence System and verify that completion of all ethics modules can be tracked using Coast Guard Business Intelligence. Once that capability is established or modified, if necessary, the Coast Guard should assign an employee to monitor initial ethics training for new hires on a quarterly basis. Those failing to complete new hire training should be notified of their responsibility via a direct email.

USCG – FMC 14-04 – Civilian Payroll and Human Resources *(NFR No. USCG 14-19)*

During testwork over payroll, we noted the following:

- Controls over the time sheet review and approval for civilian payroll were not operating effectively. Specifically, we noted the following: one instance out of 45 in which documentation to support the approval of annual leave was not provided.
- Controls over initiating and approving military personnel actions within the Human Resources system were not operating effectively. Specifically, we noted the following: two instances out of 25, for processed separations, in which the same individual initiated and approved the separation action within the system.

Recommendations:
We recommend that Coast Guard:

- Continue to issue annual reminders to supervisors regarding the requirement for appropriate approvals of leave, premium pay, and time and attendance records in support of all activity within the time and attendance process. The Coast Guard should also continue to require annual WebTA training for supervisors. The Office of Civilian Resources shall work to incorporate timecard reviews into Forcecom's Finance and Admin inspection team capabilities in order to improve unit level knowledge of recordkeeping requirements.
- Review its current military personnel separations process to identify any gaps in segregation of duties not covered by current policies and procedures. If Coast Guard identifies a gap, they should update its policies and procedures to remediate that gap.

USCG – FMC 14-05 – Financial Reporting (Reconciliation of Net Cost to Budget) ***(NFR No. USCG 14-21)***

Controls over the preparation of the Manual Footnote: Consolidated Net Cost to Budget Reconciliation (Statement of Financing (SOF)) were not properly designed and implemented. Specifically, we noted that due to posting logic issues within Core Accounting System, purchases of capitalized property and inventory are not properly recorded to SGL memo accounts 8801, 8802 and 8803. As a result, the Coast Guard utilizes analytical procedures rather than the appropriate transactional level detail to support Line 15, Resources that finance the acquisition of assets. Additionally, without proper controls over PP&E, Coast Guard cannot assure reliability of Line 15. We also noted that the manual footnote was not properly reviewed and approved as Line 12, Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet
Provided, excluded SGL account 4871 although the manual footnote template provided by the Department requires this SGL amount be included.

Recommendation:
We recommend that the Coast Guard continue manual analytical procedures until posting logic functionality is corrected or a new financial system is implemented which includes posting logic functionality for these memo accounts.

USCG – FMC 14-06 – Non-GAAP Analysis *(NFR No. USCG 14-26)*

The Coast Guard’s non-GAAP analysis is not operating effectively. Specifically we noted that the analysis excludes a full year quantitative assessment (materiality) of each item identified in order to properly determine the impact to the year-end financial statements and record adjustments if necessary. In Coast Guard’s second FY 2014 analysis, management quantified the impact of many non-GAAP policies as of an interim date or as of a date prior to FY 2014 but did not reassess or project the impact as of September 30, 2014. Additionally, Coast Guard did not perform a materiality assessment for all items.

Recommendations:
We recommend that Coast Guard:

- Continue to develop and implement quantitative assessment (materiality) procedures to more precisely define the Financial Statement impact of the non-GAAP policies and procedures for all identified areas.
- Further develop policy and procedures to track all non-GAAP accounting policies including quantitative assessment (materiality).

XIII. UNITED STATES SECRET SERVICE (USSS)

USSS – FMC 14-01 – Funds Management Controls and Supporting Documentation *(NFR No. USSS 14-01)*

Controls over the SF-132 to SF-133 reconciliation were not properly implemented during the interim period. Specifically, we noted during our walkthrough of the SF-132 to SF-133 reconciliation for one Treasury Account Fund Symbol (TAFS) for the month of June 2014, a $400,000 difference in the Unobligated Balance existed. This difference was caused by a $400,000 difference in anticipated transfers and adjustments. We noted that USSS failed to provide an explanation for this difference on the reconciliation.

Recommendation:
We recommend that USSS reinforce existing policies and procedures to ensure that all differences are explained and populated on the main spreadsheet when preparing the SF-132 vs SF-133 on a quarterly basis.

USSS – FMC 14-02 – Deficiencies in the Public and Confidential Financial Disclosure Reporting Process *(NFR No. USSS 14-02)*

During testwork over a sample of 15 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.
- Thirteen OGE-450 forms were not certified by the office of ethics within 60 days of receipt.

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

USSS – FMC 14-03 – Untimely Recording of Obligations *(NFR No. USSS 14-03)*

During testwork over new purchase orders as of June 30, 2014, we reviewed a sample of 45 new obligations incurred and identified untimely obligation of funding. Specifically, we noted three instances in which the obligation's period of performance began on October 1, 2013, however the obligation was not recorded until 2014.

Recommendation:
We recommend that USSS reinforce existing policies and procedures regarding the proper recording of obligations specifically timing ensuring obligations are recorded prior to the period of performance or subject to availability of funds.

USSS – FMC 14-04 – Personnel File Documentation *(NFR No. USSS 14-04)*

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:

- One instance in which the employee personnel file did not include the Federal Employees' Group Life Insurance form. The employee failed to fill out and elect basic coverage for life insurance coverage that is currently being provided to the employee.
- One instance in which the employee personnel file did not include the applicable Federal Employees Health Benefits election form. Further, no evidence was provided to indicate the employee made their current election within their personnel file.

Recommendation:
We recommend that USSS continue the ongoing review of documentation in electronic personnel file to identify and correct mismatches between current benefit information and election and/or change in benefit election.

USSS – FMC 14-05 – Funds Management: Untimely Recording of Deobligations and Accounting for Expense Accruals *(NFR No. USSS 14-05)*

During testwork over undelivered orders as of June 30, 2014, we reviewed a sample of six undelivered order balances and identified untimely deobligation of undelivered orders. Specifically, we noted one instance in which the period of performance on the contract expired November 30, 2011 and the funds had not been deobligated.

During testwork over operating expense type transactions as of July 31, 2014, we reviewed a sample of 45 transactions and identified two instances in which unpaid goods and services were provided prior to September 30, 2013; however, the expenses were not included in the September 30, 2013 accounts payable accrual due to delays in processing the goods receipts in the financial reporting system.

Recommendations:
We recommend that USSS:

- Implement policies and procedures to review undelivered orders at least once a quarter and an office will have one month to respond. If a response is not received the office will be listed on the monthly score card which is prepared by the Financial Management Division and sent to the respective offices. If a response is not received within two weeks after the Office is notified, a deobligation will be initiated.
- Reinforce existing policies and procedures that no work should be initiated prior to the period of performance of a contract or after the period of performance has

expired. In instances where the purchase is outside the period of performance of the contract, the purchase must be handled as an unauthorized obligation and ratified.

- Review and update policies and procedures for establishing obligations to ensure that invoices that are required to be matched to a purchase order are not paid via direct disbursement.
- Reinforce policies regarding the recording of receipts, specifically that receipts should be recorded in the USSS general ledger at the time the goods and services are received rather than when the invoice is received. Incremental recording of receipts will also be addressed and additional emphasis will be on recording of receipts at year end.

USSS – FMC 14-06 – Journal Entry Controls *(NFR No. USSS 14-07)*

USSS journal entry controls were not fully effective during the current year related to review of manual entries recorded by the Financial Management Division Accounting Branch. During testwork performed over a sample of 22 journal entries, the following deficiencies were identified related to, lack of supporting documentation, segregation of duties or supervisory review and approval:

- One instance where all the documentation to fully support the purpose of the journal voucher was not included to the file provided to the reviewer for approval.
- One instance of a lack of segregation of duties, where the same individual prepared and reviewed the journal voucher.
- One instance of the journal voucher being a duplicate of a previously recorded journal voucher. Both entries were reviewed and approved. The duplicate entry was subsequently reversed as a result of additional mitigating controls.

Recommendation:
We recommend that USSS reinforce existing policies and procedures to all Accounting staff within the Financial Management Division to regarding the posting of journal vouchers. Emphasis on procedures such as all journal vouchers that are prepared/posted in the General Ledger must include all pertinent and clear support, and be reviewed/approved by someone other than the preparer which may be either the Accounting Branch Chief, the Financial Statements Branch Chief, or the Deputy Division Chief.

USSS – FMC 14-07 – Ineffective Controls in the Seized Property Inventory Process *(NFR No. USSS 14-08)*

Controls over the physical security and physical inventory of seized property were not fully effective during the FY 2014. Specifically, during testwork at four Field Offices and Headquarters, we identified the following control deficiencies:

- One instance where Headquarters did not update the Counterfeit Tracking Application to correct a discrepancy identified during the annual inventory at one Field Office.
- Evidence Vault Security Access Logs evidenced that officers consistently entered the vault unaccompanied at each of the four Field Offices visited and Headquarters.

Controls were not operating effectively to ensure balances of seized property are accurately presented in the footnote disclosure.

Recommendation:
We recommend that USSS:

- Revise and simplify the forms and instructions used to account for counterfeit it notes and provide training on the use of these forms.
- Train and educate staff to emphasis the proper use of SSF 4051 or 702 (access logs).

XIV. OFFICE OF FINANCIAL MANAGEMENT (OFM)

OFM – FMC 14-01 – Departmental Standards of Conduct *(NFR No. OFM 14-01)*

During our test work over entity-level controls, we noted that DHS has not issued Supplemental Standards of Conduct. Although not required, the Department, with the concurrence of the Office of Government Ethics, 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 continue to work towards publishing a final rule.

OFM – FMC 14-02 – Inadequate Review of Component Statement of Net Cost Templates *(NFR No. OFM 14-02)*

During our interim test work over Component statement of net cost (SNC) templates, we noted that the costs per the Immigration and Custom Enforcement (ICE) SNC template were not allocated in accordance with ICE's approved SNC allocation methodology. Specifically, we noted that per ICE's SNC methodology, ICE aligns its programs with six DHS Strategic Goals (mission 1, mission 2, mission 3, mission 4, mission 5, and focus area 1). We noted that in the SNC template, ICE did not allocate any costs to DHS Strategic Goal - mission 5, and incorrectly allocated costs to DHS Strategic Goal - focus area 2. Mission 5 and focus area 2 are mapped to different major missions on the face of the SNC. This error was not identified during OFM's review process.

Recommendation:
We recommend that DHS increase communication during the quality control phase of the review of all notes and statements and include an additional control review step of flux analysis.

OFM – FMC 14-03 – Non-Compliance with Financial Disclosure Filing Requirements and Ethics Training Requirements ***(NFR No. OFM 14-03)***

- During test work over financial disclosure reports at the headquarters Office of Ethics, we identified the following exceptions:
  - OGE 278 Forms:
    - Two out of 25 samples tested did not have timely submission of the forms by the filers in accordance with the OGE filing requirements. Additionally, the forms were not submitted within the 30 day grace period.
    - Five out of 25 samples tested had an untimely initial review (i.e. not within 60 days of the date the form was submitted).
    - Fifteen out of 25 samples tested had an untimely final review/certification.
  - OGE 450 Forms:
    - Four out of 45 samples tested did not have timely submission of the forms by the filers in accordance with the OGE filing requirements. Additionally, the forms were not submitted within the 30 day grace period.
    - Two out of 45 samples tested were completed and signed by the filer timely, but were not submitted to the Ethics Officer timely.
    - Seven out of 45 samples tested had an untimely final review/certification.
- During testwork over a sample of 65 employees, we identified three OGE 450 filers where evidence could not be provided that they had completed ethics training.
- We noted that the Designated Agency Ethics Official 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, the HQ Ethics Office program reviews were unable to assess compliance with Designated Agency Ethics Official -approved procedures because not all components had submitted their implementing instructions to the Designated Agency Ethics Official for review and approval as required under the Financial Disclosure Reporting Policy.
- During testwork over financial disclosure forms at eight components, all eight component audit teams (Coast Guard, FEMA, CBP, TSA, FLETC, USCIS, ICE, and USSS) 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 the DHS Ethics Office:

- Continue to provide timely notifications to employees to ensure they are aware of their obligations to meet required filing deadlines and training requirements and 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.
- Continue to conduct ethics training each pay period for new employees and conduct ethics training sessions in person each calendar year for senior executives, Federal Advisory Committee Act members, provide on-line training examples and review for the acquisition workforce ethics training and provide ethics training to all financial disclosure report filers, and other filers upon request.
- 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.

OFM – FMC 14-04 – Advances and Prepayments *(NFR No. OFM 14-05)*

DHS lacked documented procedures to ensure prepayment and advances associated with the working capital fund were appropriately recorded at the component level upon notification from the working capital fund. Specifically, we noted one instance for a transaction of $45 million, where the working capital fund notified components of the service period and that an advance needed to be established; however, the related components did not have a corresponding advance recorded in their general ledgers.

Recommendation:
We recommend that DHS Financial Management update the FY 2015 Component Requirements Guide to include instructions and deliverables related to prepaid software licenses. This will allow for additional oversight over the recording of prepayment liabilities.

Department of Homeland Security
Crosswalk - Financial Management Comments to Active NFRs
September 30, 2014

			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
CBP	14-01	Deficiencies in the Design of the Drawback Compliance Review Process		G		
CBP	14-02	Lack of Controls to Detect Excessive Drawback Claims		G		
CBP	14-03	Insufficient Retention Period for Documents that Support Drawback Claims		G		
CBP	14-04	Lack of Controls to Determine Sufficiency of Drawback Continuous Bonds for Claimants Qualified for Accelerated Payments		G		
CBP	14-05	Weaknesses in the Recognition of Goods and Services Received as of March 31, 2014				14-01
CBP	14-06	Inadequate Controls over Settlement of Assets as of April 30, 2014	C			
CBP	14-06a	Inadequate Controls over Settlement of Assets as of September 30, 2014	C			
CBP	14-07	Ineffective Control over Asset Disposals as of April 30, 2014	C			
CBP	14-08	Deficiencies in Controls over the Unfunded Leave Accrual Process				14-02
CBP	14-09	Ineffective Controls over the Performance Management Program				14-03
CBP	14-10	Control Deficiencies in the Bonded Warehouses and Foreign Trade Zone Processes and Procedures		G		
CBP	14-11	Control Deficiencies over the In-Bond Process		G		
CBP	14-12	Ineffective Controls over Review of Entry Edit/Exception Report		G		
CBP	14-13	Control Deficiencies over Customs Trade Partnership Against Terrorism Benefits				14-04
CBP	14-14	Lack of Implementation of Controls over Determining Classification of Leases				14-05
CBP	14-15	Ineffective Controls over the Refunds Prior to Disbursement		G		
CBP	14-16	Ineffective Controls in the Seized and Forfeited Inventory Process				14-06
CBP	14-17	Ineffective Controls over the Review of Bond Sufficiency		G		
CBP	14-18	Deficiencies in the Public and Confidential Financial Disclosure Reporting Process				14-07
CBP	14-19	Control Deficiencies in Estimated Accounts Receivable (Public) Process				14-08
CBP	14-20	Management Oversight of Property, Plant, and Equipment	C			
CBP	14-21	Omission of Rotable Parts Accounting Policy from Non-GAAP (Generally Accepted Accounting Principles) Analysis				14-09
CBP	14-22	Federal Financial Management Improvement Act			K	
CBP	14-23	Failure to Establish and Review Significant Accounting Policies and Standard Operating Procedures in Various Areas				14-10

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Department of Homeland Security

Crosswalk - Financial Management Comments to Active NFRs

September 30, 2014

			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
CBP	14-24	Untimely Review of Quarterly Department of Labor Chargeback Reports				14-11
CBP	14-25	Lack of Implementation of Materiality Analysis for Seized Property Footnote				14-12
CBP	14-26	Ineffective Controls over the Timely Review of Liabilities for Deposit Accounts				14-13
CBP	14-27	Error in Performance of the September 30 Payroll Accrual Look-Back Analysis				14-14
CBP	14-28	Untimely Deobligation of Undelivered Orders				14-15
CBP	14-29	Lack of Monitoring and Tracking of Heritage Property, Plant, and Equipment				14-16
CBP	14-30	Misclassification of Custodial Liabilities as Accounts Payable Related to Puerto Rico				14-17
CBP	14-31	Deficiencies in Tracking CBP Leases				14-18
CBP	14-32	Control Deficiencies over Underlying Data Used to Prepare the Fines, Penalties, and Forfeitures Receivable Adjusting Journal Entry				14-19
CBP	14-33	Ineffective Controls in the Review of Adjusting Journal Entries				14-20
CBP	14-34	Deficiency over the Year-End Statement of Differences Reconciliation				14-21
DNDO	14-01	Undelivered Orders				14-01
FEMA	14-01	Internal Control Deficiencies Identified over Premiums Written by FEMA's National Flood Insurance Program as of March 31, 2014				14-01
FEMA	14-02	Deficiencies Identified over Claims' Case Reserves at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program as of February 28, 2014				14-02
FEMA	14-02a	Deficiencies Identified over Claims' Case Reserves at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program as of August 31, 2014				14-02
FEMA	14-03	Internal Control Deficiencies Identified over Claims Paid at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program as of March 31, 2014				14-03
FEMA	14-04	Ineffective Controls over Tracking Grants Eligible for Close-Out		F		
FEMA	14-05	Ineffective Controls over Procurement Contract Management and Non-Compliance with Federal Acquisition Regulation	B			
FEMA	14-06	Ineffective Controls over the Recording of Funding Transactions	D			
FEMA	14-07	Inconsistent Implementation of DHS Background Investigation Requirements for FEMA Federal Employees and Contractors		E		

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Crosswalk - Financial Management Comments to Active NFRs

September 30, 2014

			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
FEMA	14-08	Ineffective Controls over Intergovernmental Activity Obligations, De-obligations and Payments	D			
FEMA	14-09	Ineffective Controls over Procurement Obligations and Deobligations	D			
FEMA	14-10	Ineffective Controls over Grant De-obligations and Monitoring of Grantee Drawdowns	B,D			
FEMA	14-11	Deficiencies in the Monthly SF-132 to SF-133 Reconciliation Review Process	D			
FEMA	14-12	Failure to Recertify Policies and Procedures in Various Areas	B			
FEMA	14-13	Non-Compliance with 5 Code of Federal Regulations Part 2634 and 5 Code of Federal Regulations Part 2368 Related to Ethics Requirements				14-04
FEMA	14-14	Issues Identified in Journal Voucher Testwork as of June 30, 2014				14-05
FEMA	14-15	Improper Processing of Undelivered Orders	D			
FEMA	14-16	Ineffective Controls over Grants Management, Monitoring Efforts and Non-Compliance with the Cash Management Improvement Act		E		
FEMA	14-17	Ineffective Controls over the Preparation of the Annual Undelivered Order Certification				14-06
FEMA	14-18	Ineffective Controls over Grant Monitoring Efforts	B			
FEMA	14-19	Ineffective Controls over Assistance for Firefighters Grants Monitoring Efforts and Non-Compliance with Cash Management Improvement Act		E		
FEMA	14-20	Untimely De-obligation of Undelivered Orders	D			
FEMA	14-21	Ineffective Controls over Grant Accrual Journal Vouchers				14-07
FEMA	14-22	Monitoring of Audit Findings in Accordance with OMB Circular No. A-133		E	I	
FEMA	14-23	Inability to Link Systems to Significant Grant Programs				14-08
FEMA	14-24	Certain Payroll Processing Control Deficiencies				14-09
FEMA	14-25	Deficiencies in the Budget Monthly Execution Report				14-10
FEMA	14-26	Deficiencies Identified in the Web Integrated Financial Management Information System Chart of Accounts and Transaction Codes				14-11
FEMA	14-27	Ineffective Controls over Recoveries of Prior Year Unpaid Obligations				14-12
FEMA	14-28	Ineffective Controls over the Quarterly Undelivered Order Validation				14-13
FEMA	14-29	Improvements Needed in Management's Review of the Acceptable Variance Ranges				14-14
FEMA	14-30	Non-Compliance with the Federal Financial Management Improvement Act			K	
FEMA	14-31	Need for Additional Guidance on Accounting for Direct Loans				14-15

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September 30, 2014

			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
FEMA	14-32	Untimely De-obligation of Undelivered Orders	D			
FLETC	14-01	Invalid and Inaccurate Undelivered Orders				14-01
FLETC	14-02	Lack of Effective Controls over Asset Additions				14-02
FLETC	14-03	Untimely Reimbursable Agreements / Abnormal Balances				14-03
FLETC	14-04	Incorrect Trading Partner Coding				14-04
FLETC	14-05	Non-Compliance with Financial Disclosure Filing Requirements				14-05
USCIS	14-01	Deficiencies in the Recording of Property, Plant, and Equipment				14-01
USCIS	14-02	Deficiencies in the Timely Recording of Obligations				14-02
USCIS	14-03	Deficiencies in the Approval of Apportionment Entries to FFMS				14-03
USCIS	14-04	Inaccurate and Unsupported Data in the CLAIMS 3 CLAIMS 4 and MFAS Systems				14-04
USCIS	14-05	Deficiencies in the Public and Confidential Financial Disclosure Financial Reporting Process				14-05
ICE	14-01	Funds Management and Untimely Recording of Obligation Activity to the General Ledger	D			
ICE	14-02	Untimely Posting of De-obligations	D			
ICE	14-03	General Property, Plant, and Equipment Additions and Deletions				14-01
ICE	14-04	Undelivered Orders Analysis	D			
ICE	14-05	Imputed Costs General Journal Entry	A		K	
ICE	14-06	IPAC Expense Approval	A			
ICE	14-07	Invoice Receipt	B,D			
ICE	14-08	Anti-Deficiency Act			J	
ICE	14-09	Approval of Personnel Actions – Administrative Uncontrolled Overtime				14-02
ICE	14-10	Travel Expense Authorization and Approval	A			
ICE	14-11	Financial Reporting – General Journal Entry	A			
ICE	14-12	Financial Reporting	A,B	E	K	
ICE	14-13	OGE-450 Form: Confidential Financial Disclosure Report and OGE-278 Form: Public Financial Disclosure Report				14-03
ICE	14-14	Non-Contract Undelivered Orders	A,D			
ICE	14-15	Rent Bill Expense Approval	A			

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Department of Homeland Security

Crosswalk - Financial Management Comments to Active NFRs

September 30, 2014

			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
ICE	14-16	Apportionments				14-04
ICE	14-17	Completeness of the Lease Footnote Disclosure and Timely Capitalization of Leasehold Improvements				14-05
MGA	14-01	Invalid and Inaccurate Undelivered Orders				14-01
MGA	14-02	PRISM to Momentum Reconciliation				14-02
MGA	14-03	Potential Anti-Deficiency Violation			J	
MGA	14-04	Untimely Recording of Undelivered Orders				14-03
MGA	14-05	Statement of Net Cost Methodology				14-04
MGMT	14-01	Approval of Personnel Actions				14-01
MGMT	14-02	Untimely Apportionments	D			
MGMT	14-03	Operating Expense Approval and Coding	D			
MGMT	14-04	Invoice Receipt	B,D			
MGMT	14-05	Recording of Leasehold Improvements	A			
MGMT	14-06	Anti-Deficiency Act	D		J	
MGMT	14-07	Undelivered Orders	D			
MGMT	14-08	New Hire Controls				14-02
MGMT	14-09	Financial Reporting – General Journal Entry				14-03
MGMT	14-10	Inadequate Third Party Documentation to Support Leases and Related Leasehold Improvements				14-04
MGMT	14-11	Financial Reporting	A,B		K	
MGMT	14-12	*Number not used*	Not applicable			
MGMT	14-13	Entity Level Controls and Non-Compliance with Federal Managers Financial Integrity Act	A	E		
NPPD	14-01	Approval of Personnel Actions				14-01
NPPD	14-02	Time and Attendance				14-02
NPPD	14-03	FFMS to PRISM Reconciliation				14-03
NPPD	14-04	General Property, Plant, and Equipment Controls	A			
NPPD	14-05	Overapportionment of Funds and Untimely Recording of Apportionments to the General Ledger	D			
NPPD	14-06	Property Prior Period Adjustments	A			
NPPD	14-07	Apportionments	D			
NPPD	14-08	Invoice Receipt	B,D			
NPPD	14-09	Financial Reporting – General Journal Entry				14-04

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Department of Homeland Security
Crosswalk - Financial Management Comments to Active NFRs
September 30, 2014

			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
NPPD	14-10	Travel Expense Authorization and Approval				14-05
NPPD	14-11	Anti-Deficiency Act			J	
NPPD	14-12	Financial Reporting	A,B	E		
NPPD	14-13	Undelivered Orders	D			
S&T	14-01	Undelivered Orders Analysis				14-01
S&T	14-02	Untimely Recording of Obligation Activity to the General Ledger				14-02
S&T	14-03	Statement of Net Cost				14-03
S&T	14-04	Unfilled Customer Orders				14-04
TSA	14-01	Ineffective Controls over the Time and Attendance Process				14-01
TSA	14-02	Entity-Level Controls				14-02
TSA	14-03	Inadequate Review of Personnel Actions				14-03
TSA	14-04	Intra-Governmental Payment and Collection Review Controls				14-04
TSA	14-05 14-05a	Undelivered Orders Controls – Validation and Verification				14-05
TSA	14-06	Contract Administration				14-06
TSA	14-07	Travel Authorization and Expenditure Support				14-07
TSA	14-08	Insufficient Research of Intra-Departmental Trading Partner Differences				14-08
TSA	14-09	Control Deficiencies Relating to OGE-278 and OGE-450 Forms				14-09
TSA	14-10	Lease Accounting and Disclosure				14-10
TSA	14-11	Adjustments to Prior Year Obligations				14-11
TSA	14-12	Property, Plant, and Equipment Controls				14-12
TSA	14-13	Gross Cost Deficiencies				14-13
TSA	14-14	Non-Compliance with the Federal Financial Management Improvement Act of 1996				14-14
TSA	14-15	Accounts Receivable Accrual Deficiencies				14-15
USCG	14-01	Opening Balances	A			
USCG	14-02	Expenses Process	A			
USCG	14-03	Fund Balance with Treasury	A			
USCG	14-04	Entity Level Controls		E		
USCG	14-05	Financial Disclosure Reports				14-01

Department of Homeland Security
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September 30, 2014

			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
USCG	14-06	Preparation of the U.S. Government Accountability Office Financial Audit Manual 2010 Checklist				14-02
USCG	14-07	New Hire Ethics Trainings				14-03
USCG	14-08	Real Property	A,C			
USCG	14-09	Site Visit Observations	A,C			
USCG	14-10	Construction in Progress	A,C			
USCG	14-11	Personal Property and Equipment	A,C			
USCG	14-12	Environmental Disposal Liabilities Process Controls	A			
USCG	14-13	Stewardship and Heritage Assets	A,C			
USCG	14-14	Leases and Leasehold Improvements	A,C			
USCG	14-15	Intragovernmental Transactions and Balances	A			
USCG	14-16	Federal Financial Management Improvement Act	A		K	
USCG	14-17	Internal Use Software and Internal Use Software in Development	A			
USCG	14-18	Undelivered Orders and Contract Management	A,D			
USCG	14-19	Civilian Payroll and Human Resources				14-04
USCG	14-20	Accounts Payable	A			
USCG	14-21	Financial Reporting (Reconciliation of Net Cost to Budget)				14-05
USCG	14-22	Operating Materials and Supplies	A,B			
USCG	14-23	Financial Reporting (including Manual Journal Entries and On-Top Adjustments	A			
USCG	14-24	Contingent Legal Liabilities	A			
USCG	14-25	Accounts Receivable and Revenue Controls	A			
USCG	14-26	Non-GAAP Analysis				14-06
USSS	14-01	Funds Management Controls and Supporting Documentation				14-01
USSS	14-02	Deficiencies in the Public and Confidential Financial Disclosure Reporting Process				14-02
USSS	14-03	Untimely Recording of Obligations				14-03
USSS	14-04	Personnel File Documentation				14-04
USSS	14-05	Funds Management: Untimely Recording of Deobligations and Accounting for Expense Accruals				14-05
USSS	14-06	Accounting for the Actuarial Pension Liability	A		K	
USSS	14-07	Journal Entry Controls				14-06
USSS	14-08	Ineffective Controls in the Seized Property Inventory Process				14-07

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September 30, 2014

			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
OFM	14-01	Departmental Standards of Conduct				14-01
OFM	14-02	Inadequate Review of Component Statement of Net Cost Templates				14-02
OFM	14-03	Non-Compliance with Financial Disclosure Filing Requirements and Ethics Training Requirements				14-03
OFM	14-04	Non-Compliance with Federal Manager's Financial Integrity Act of 1982			H	
OFM	14-05	Advances and Prepayments				14-04
OFM	14-06	Closing Package	Note 1			

[1]Disposition Legend:

IAR Independent Auditors' Report dated November 13, 2014
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 Grants Management
G Custodial Revenue 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)

Note 1: This finding was reporting in the Independent Auditors' Report on the Closing Package Financial Statements

Department of Homeland Security
Management Response to the Management Letter
September 30, 2014

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

Homeland Security

February 3, 2015

MEMORANDUM FOR: Mark Bell
Assistant Inspector General for Audits

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

SUBJECT: Management Letter for the DHS FY 2014 Financial Statements and Internal Control over Financial Reporting Audit

Thank you for the opportunity to comment on the Draft Management Letter for the FY 2014 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 2014, the Department continued to make progress and sustained the unmodified (clean) financial statement opinion. We appreciate your office's contributions and insights, and we look forward to working with you as we implement our corrective actions to address our remaining material 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.

Appendix
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