

**OFFICE OF INSPECTOR GENERAL**

**United States Secret  
Service's Management  
Letter for DHS' FY 2014  
Financial Statements  
Audit**



Homeland  
Security

**April 8, 2015  
OIG-15-58**



# HIGHLIGHTS

## *United States Secret Service's Management Letter for DHS' FY 2014 Financial Statements Audit*

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**April 8, 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](mailto:DHS-IG.OfficePublicAffairs@oig.dhs.gov)

### **What We Found**

KPMG LLP reviewed the United States Secret Service's (U.S. Secret Service) internal control over financial reporting. The management letter contains seven observations related to internal control and other operational matters for management's considerations.

KPMG LLP noted deficiencies and the need for improvements in certain U.S. Secret Service processes. These deficiencies did not meet the criteria to be reported in the *Independent Auditors' Report on DHS' FY 2014 Financial Statements and Internal Control over Financial Reporting*, dated November 14, 2014, included in DHS' fiscal year 2014 *Agency Financial Report*. These observations are intended to improve internal control or result in other operating efficiencies.



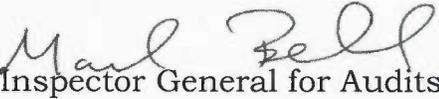
## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / [www.oig.dhs.gov](http://www.oig.dhs.gov)

APR 8 2015

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

FROM: Mark Bell   
Assistant Inspector General for Audits

SUBJECT: *United States Secret Service's Management Letter for  
DHS' FY 2014 Financial Statements Audit*

Attached for your information is our final report, *United States Secret Service's Management Letter for DHS' FY 2014 Financial Statements Audit*. This report contains observations related to internal control deficiencies that were not required to be reported in the *Independent Auditors' Report on DHS' 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 Department of Homeland Security (DHS) fiscal year (FY) 2014 *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 and the conclusions expressed in it.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security.

Please call me with any questions, or your staff may contact Paul Wood, 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  
U.S. Department of Homeland Security, and  
Chief Financial Officer  
U.S. Department of Homeland Security, United States Secret Service  
Washington, DC

Ladies and Gentlemen:

In planning and performing our audit of the consolidated financial statements of the U.S. Department of Homeland Security (DHS or Department), as of and for the year ended September 30, 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.

The United States Secret Service (USSS) is a component of DHS. During our audit we noted certain matters involving internal control and other operational matters, related to USSS, that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. These matters are summarized in the Table of Financial Management Comments on the following pages. The disposition of each internal control deficiency identified during our FY 2014 audit – 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, the USSS Chief Information Officer and Chief Financial Officer.

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

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

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

Very truly yours,

**KPMG LLP**

United States Secret Service  
*Table of Financial Management Comments*  
September 30, 2014

**TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)**

<b>Comment Reference</b>	<b>Subject</b>	<b>Page</b>
FMC 14-01	Funds Management Controls and Supporting Documentation	2
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**APPENDIX**

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United States Secret Service  
*Financial Management Comments*  
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**FMC 14-01 – Funds Management Controls and Supporting Documentation (*Notice of Finding and Recommendation (NFR) No. United States Secret Service (USSS) 14-01*)**

Controls over the Standard Form (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.

**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 Office of Government Ethics (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.

**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, ensuring obligations are recorded prior to the period of performance or subject to availability of funds.

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**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.

**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

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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.

**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.

**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 fiscal year 2014. Specifically, during testwork at four Field Offices and Headquarters, we identified the following control deficiencies:

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- 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 notes and provide training on the use of these forms.
- Train and educate staff to emphasize the proper use of SSF 4051 or 702 (access logs).

United States Secret Service  
 Crosswalk - Financial Management Comments to Active NFRs  
 September 30, 2014

Component	NFR No.	Description	Disposition <sup>1</sup>			
			IAR			FMC
			MW	SD	NC	No.
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

<sup>1</sup>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)*



# OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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## **Appendix A** **Report Distribution**

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Chief Financial Officer  
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