

# **United States Coast Guards' Management Letter for DHS' FY 2014 Financial Statements Audit**





# HIGHLIGHTS

## ***United States Coast Guard's Management Letter for DHS' FY 2014 Financial Statements Audit***

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**April 15, 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 Coast Guard's (U.S. Coast Guard) internal control over financial reporting. The management letter contains six 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. Coast Guard 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 15 2015

MEMORANDUM FOR: Rear Admiral Todd A. Sokalzuk  
Chief Financial Officer  
United States Coast Guard

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

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

Attached for your information is our final report, *United States Coast Guard'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, U.S. Coast Guard  
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 U.S. Coast Guard (USCG or Coast Guard) is a component of DHS. During our audit we noted certain matters involving internal control and other operational matters, related to Coast Guard, 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 Coast Guard 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 Coast Guard'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

U.S. Coast Guard  
*Table of Financial Management Comments*  
*September 30, 2014*

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

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**APPENDIX**

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U.S. Coast Guard  
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**FMC 14-01 – Financial Disclosure Reports (*Notice of Finding and Recommendation (NFR)* No. U.S. Coast Guard (USCG or Coast Guard)) 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.

**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 U.S. Government Accountability Office Financial Audit Manual 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.



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- 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 Property, Plant and Equipment (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 Standard Operating Procedure and ensure the roles and responsibilities are executed properly in the preparation of the U.S. Government Accountability Office Financial Audit Manual 2010 Checklist.

**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.

**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.

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*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.

**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) 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 Standard General Ledger (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.



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**FMC 14-06 – Non-Generally Accepted Accounting Principles (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).

U.S. Coast Guard  
*Crosswalk - Financial Management Comments to Active NFRs*  
 September 30, 2014

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

<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

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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)*



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Chief Financial Officer  
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