

Department of Homeland Security **Office of Inspector General**

Federal Emergency Management Agency's Management Letter for FY 2013 DHS Financial Statements Audit





OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

APR 23 2014

MEMORANDUM FOR: Edward Johnson
Chief Financial Officer
Federal Emergency Management Agency

FROM: *for* Anne L. Richards *Mark Bell*
Assistant Inspector General for Audits

SUBJECT: *Federal Emergency Management Agency's Management Letter for FY 2013 DHS Financial Statements Audit*

Attached for your information is our final report, *Federal Emergency Management Agency's Management Letter for FY 2013 DHS Financial Statements Audit*. This report contains 19 comments and 41 recommendations related to internal control deficiencies that were not required to be reported in the *Independent Auditors' Report on DHS' FY 2013 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 December 11, 2013, which was included in the Department of Homeland Security (DHS) fiscal year (FY) 2013 Agency Financial Report. We do not require management's response to the recommendations.

We contracted with the independent public accounting firm KPMG LLP (KPMG) to conduct the audit of the DHS' FY 2013 financial statements and internal control over financial reporting. The contract required that KPMG perform its audit according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG is responsible for the attached management letter dated January 15, 2014, and the conclusions expressed in it.

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

Attachment



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

January 15, 2014

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

Ladies and Gentlemen:

We have audited the financial statements of the U.S. Department of Homeland Security (DHS or Department) for the year ended September 30, 2013 (referred to herein as the “fiscal year (FY) 2013 financial statements”), and have issued our report thereon dated December 11, 2013. In planning and performing our audit of the financial statements of DHS, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. In conjunction with our audit of the 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 Federal Emergency Management Agency (FEMA) is a component of DHS. During our audit, we noted certain matters involving internal control and other operational matters, related to FEMA, 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 2013 audit – as either reported in our *Independent Auditors’ Report*, or herein – 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 FEMA 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 FEMA’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

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FMC 13-01 – Inability to Link Systems to Significant Grant Programs (*Notice of Finding and Recommendation (NFR) No. Federal Emergency Management Agency (FEMA) 13-01*)

We requested that FEMA provide an analysis to demonstrate the amount of undelivered orders (UDOs) flowing through each grant system during fiscal year (FY) 2013. We asked that the analysis include six items: (1) the Grant Program; (2) the Catalog of Federal Domestic Assistance number; (3) the responsible Directorate; (4) the award, monitoring, obligation, and payment systems used; (5) the relevant obligation and payment accounting strings; and (6) the reconciled net UDO balance.

This information requested during the FY 2013 audit was the same information requested during the FY 2011 and FY 2012 audits. Per communication with FEMA, appropriate changes had not been made to remediate the finding related to the inability to link significant grant systems.

Recommendations:

We recommend that FEMA:

- Develop and implement a monitoring control to ensure that the spreadsheet developed in prior years is updated when necessary.
- Implement a process to monitor which grant transactions are flowing through which grant systems in order to facilitate an assessment of systems-based controls over obligations and payments related to these programs.

FMC 13-02 –Management Review Control for the Annual Subsidy Re-Estimate Calculation (*NFR No. FEMA 13-02*)

During our direct loan walkthrough at the FEMA Finance Center (FFC), we noted that FEMA did not have a formal management review control designed or implemented to ensure the accuracy of FEMA's direct loan subsidy re-estimate calculation.

Recommendation:

We recommend that FEMA develop and implement a process to review and approve the direct loan subsidy and subsidy re-estimate calculations.

FMC 13-03 – Insufficient Communication to Employees of the Department of Homeland Security Office of Inspector General Hotline and Code of Conduct (*NFR No. FEMA 13-03*)

Based on testwork conducted over a sample of 15 FEMA employees interviewed to determine if they were aware of the DHS and FEMA Standards of Conduct (which we referred to as the Code of Conduct during these interviews, consistent with terminology used in our walkthroughs) and knew how to access the DHS and FEMA Standards of Conduct, we noted three employees were not aware of the DHS and FEMA Standards of Conduct and four employees were not aware of where they could obtain or access a copy of the DHS and FEMA Standards of Conduct.

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Additionally, based on testwork performed over a sample of 15 FEMA employees interviewed to determine if they were aware of the DHS Office of Inspector General (OIG) Hotline and how to access the DHS OIG Hotline, we noted three employees were not aware of the DHS OIG Hotline or how to access the DHS OIG Hotline.

Recommendations:

We recommend that FEMA:

- Incorporate the awareness of DHS/FEMA Standards of Conduct and the DHS OIG Hotline information into FEMA-required trainings.
- Continue to improve communications with its employees publicizing the DHS/FEMA Standards of Conduct and the DHS OIG Hotline.

FMC 13-04 – Deficiencies in the Monthly Budget Execution Reviews (NFR No. FEMA 13-04)

During FY 2013, management used a manual template-based process in order to prepare the monthly budget execution reports. Based on our walkthrough and inquiries, we noted that only draft procedures existed for the preparation of these reports, and no documented procedures or controls existed over the review of these reports. Additionally, when we requested the manual budget execution reports as of February 28, 2013, the reports provided by the Budget Planning and Analysis Division (BPAD) covered only Funds 90 and 1E, FEMA's Management and Administration, Salaries and Expenses fund accounts.

Recommendations:

We recommend that FEMA:

- Finalize the draft standard operating procedures over the preparation of the monthly budget execution reports.
- Revise standard operating procedures to include appropriate internal controls for the review and maintenance of monthly budget execution reports.

FMC 13-05 – Oversight by the National Flood Insurance Program (NFIP) Standards Committee (NFR No. FEMA 13-05)

Based on process walkthroughs, we determined the NFIP Standards Committee had not met since April 2012. Additionally, we determined five vacant positions existed on the Standards Committee as of July 31, 2013 and had existed for over two months. The five vacant positions represented members of the designated Write Your Own (WYO) companies, pools, or other entities.

Additionally, we determined Federal Insurance and Mitigation Administration (FIMA) personnel did not provide an accurate listing of the current NFIP Standards Committee members in May 2013 upon our request.

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Recommendation:

We recommend that FEMA develop and implement policies and procedures which require the Standards Committee to meet on a periodic basis and ensure vacancies are filled in a timely manner.

FMC 13-06 – Deficiencies Related to the Public Disclosure Filing Process (NFR No. FEMA 13-06)

We selected a sample of 24 individuals required to file public disclosures (Office of Government Ethics (OGE) Form 278) in 2013 and noted the following exceptions:

- For 10 individuals selected, the FEMA Agency Ethics Official did not complete his/her initial review within 60 days of the filer's submission.
- For 2 individuals selected, the new entrant public disclosure form was not completed within 30 days of assuming the public filer position.

Recommendations:

We recommend that FEMA:

- Utilize the recent additional staffing resource in the FEMA Ethics Office to allow for the dedication of sufficient time to complete the initial review of OGE Form 278 within 60 days of the filers' submissions.
- Develop and implement procedures to ensure all new entrants complete OGE Form 278 within 30 days of their entry on duty date or have a valid extension included in their files.

FMC 13-07 – Internal Control Deficiencies Identified over Claims Paid at Selected Insurance Companies that Participate in FEMA's NFIP as of March 31, 2013 (NFR No. FEMA 13-07)

We tested a total of 350 claim payments during the period October 1, 2012 to March 31, 2013, which included the following: (a) a sample of 270 claims paid transactions across nine insurance companies for internal control testwork, and (b) a sample of 80 claims paid transactions across 17 insurance companies for substantive testwork. We noted the following exceptions:

- For one control sample item, the original Proof of Loss (POL) obtained for the supplemental payment was not available.
- For one control sample item, the claim was paid without a signed POL from the insured.
- For one control sample item, the claim was paid without a 60-day POL waiver from FEMA.
- For three control sample items, the amount paid to the insured was calculated incorrectly.

Recommendations:

We recommend that FEMA:

- Follow-up with each insurance company identified above to determine that appropriate corrective action has been implemented to ensure compliance with the Standard Flood Insurance Policy's POL requirement.
- Enhance monitoring and oversight of the insurance companies participating in the NFIP to ensure claims files are being processed and reviewed in accordance with NFIP guidelines before approval and issuance of claims.

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- Identify and implement systemic solutions to ensure the accuracy of claim payments based on the information documented in the claim file.

FMC 13-08 – Internal Control Deficiencies Identified over Premiums Written by FEMA’s NFIP
(NFR Nos. FEMA 13-08 and 13-08a)

We tested a total of 287 written premium transactions during the period October 1, 2012 to March 31, 2013, which included the following: (a) a sample of 270 written premium transactions across nine insurance companies for internal control testwork, and (b) a sample of 17 written premium transactions across 10 insurance companies for substantive testwork. We noted the following exceptions:

- For one control sample item, we noted a valid street address was not provided for the insured property address, and thus, we were unable to verify the flood zone per the FEMA Flood Maps.
- For one control sample item, we noted the policy effective date was calculated incorrectly based on the policy quote date, and did not adhere to the standard 30-day wait period from the endorsement request date.

In addition, we tested a total of 197 written premium transactions during the period April 1, 2013 to August 31, 2013, which included the following: (a) a sample of 180 written premium transactions across nine insurance companies for internal control testwork, and (b) a sample of 17 written premium transactions across eight insurance companies for substantive testwork. We noted the following exceptions:

- For one control sample item as of June 30, 2013, we noted a rural route was provided for the insured property address, and thus, we were unable to verify the flood zone per the FEMA Flood Maps.
- For one control sample item as of August 31, 2013, we noted a proper physical location was not provided for the insured property address, and thus, we were unable to verify the flood zone per the FEMA Flood Maps.
- For one control sample item as of August 31, 2013, we noted the policy was written in the incorrect flood zone.

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 NFIP guidelines.
- Revise the *NFIP Flood Insurance Manual* to require that all flood zones included in insurance policy applications are subject to verification by an underwriter through the use of risk-based sampling techniques.

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FMC 13-09 – Non-Compliance with 5 Code of Federal Regulations (CFR) Part 2634 and 5 CFR Part 2638 Related to Ethics Requirements (NFR No. FEMA 13-11)

For a sample of 22 new employees from October 1, 2012 to June 30, 2013, FEMA was unable to provide documentation that 11 of them had completed initial ethics training in FY 2013 per 5 CFR § 2638.703.

In addition, FEMA did not maintain one complete and accurate list of confidential filers required to file a Confidential Financial Disclosure Report (OGE Form 450) and attend annual ethics training to ensure compliance with 5 CFR § 2634 and 2638.

- Of the 2,206 identified filers, 53 did not respond to the Office of Chief Counsel (OCC) as of July 25, 2013 with an OGE Form 450 or completed job aide to demonstrate that they were not required filers.
- Of a sample of 59 potential filers, OCC was not able to provide the OGE Form 450 filing or completed job aide for 33 individuals.

Recommendations:

We recommend that FEMA:

- Consistently use the 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.
- Develop and implement policies and procedures to effectively identify all employees required to file an OGE Form 450.
- Clarify the roles and responsibilities of OCC, the Office of the Chief Component Human Capital Officer, and other supporting parties as they relate to identifying and executing the OGE Form 450 filing requirement.

FMC 13-10 – Deficiencies in Policies and Procedures over Updating Loss Reserves at Insurance Companies that Participate in FEMA’s NFIP (NFR No. FEMA 13-15)

Based on our process walkthroughs with FIMA personnel, we determined that the insurance companies participating in the NFIP did not consistently update loss reserves following the receipt of additional claims adjuster information. For example, WYO companies and the Direct Servicing Agent (DSA) were not required to:

- Update loss reserves within a certain timeframe, or note in claims documentation why loss reserves were not updated, after new information is provided by the adjuster.
- Review and update loss reserves, or note in claims documentation why loss reserves were not updated, as of specific period ends to ensure accurate reporting of loss reserve information to FEMA.

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Recommendations:

We recommend that FEMA:

- Require WYO companies and the DSA to formally document their loss reserve policies and procedures at the company level.
- Perform a regular (e.g., monthly) review of the total outstanding NFIP loss reserve balance for all WYO companies and the DSA.

FMC 13-11 – Deficiencies Identified in the Integrated Financial Management System Chart of Accounts and Transaction Codes (NFR No. FEMA 13-25)

Based on our review of FEMA's FY 2013 Integrated Financial Management Information System (IFMIS) chart of accounts as of June 30, 2013, we noted the following exceptions, four of which remained as of September 30, 2013:

- Ten accounts listed in the IFMIS chart of accounts were not listed within the 2013 U.S. Standard General Ledger (USSGL) Chart of Accounts.
- Two accounts were incorrectly labeled in the IFMIS chart of accounts, when compared to the 2013 USSGL Chart of Accounts.
- Three accounts were mapped incorrectly or listed under the wrong primary account in the IFMIS chart of accounts, when compared to the 2013 USSGL Chart of Accounts.
- Three accounts that were not included in the 2013 USSGL Chart of Accounts were labeled as "account no longer used" but still existed within the IFMIS chart of accounts and had not been deactivated at the time of our testing.

Based on our substantive testwork performed over all 34 new transaction codes (T-codes) and 164 total T-code transactions as of June 30, 2013, we identified that 4 T-code transactions were not in compliance with the USSGL. Additionally, we identified 9 T-code transactions that did not contain the related budgetary/proprietary entry required by the USSGL.

Based on our control testwork performed over a sample of 8 T-code approval forms and 13 total T-code transactions as of June 30, 2013, we identified that 2 T-code approval forms and the related 3 total T-code transactions were not approved prior to T-code creation in IFMIS.

Based on our substantive testwork performed over a sample of 24 new T-codes and 52 total T-code transactions as of September 30, 2013, we identified 8 T-code transactions 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 IFMIS chart of accounts to ensure it is in compliance with the USSGL.
- If prior year accounts are necessary to post beginning balances, develop and implement procedures to ensure accounts are deactivated timely once beginning balances are recorded.

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- Develop a comprehensive T-code crosswalk to determine whether IFMIS T-codes are in compliance with the USSGL and why some T-codes deviate from the USSGL.
- Review Standard Operating Procedure (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.

FMC 13-12 – Ineffective Controls over Intergovernmental Advances (NFR No. FEMA 13-26)

Based on control testwork performed over the Federal Transit Administration (FTA) advance, we noted the regional contracting officer's representative (COR) did not review the FTA expenditures as of September 30, 2013 within a reasonable timeframe following the end of the quarter. Specifically, as of December 3, 2013, a regional COR review of the FY 2013 4th quarter expenditures for the advance had not been completed.

Recommendation:

We recommend that FEMA develop and implement a process to ensure timely COR review and approval of FTA expenditures related to advance liquidation.

FMC 13-13 – Deficiencies in the Development of Mission Assignment Policies and Procedures and High Risk Undelivered Orders Write-off Process (NFR No. FEMA 13-27)

Under SOP Number 2600-007, *Financial Processing of Mission Assignments*, dated April 2, 2013, FEMA required mission assignment-related UDO balances to be validated as of June 30th of each year. We noted that the SOP was updated in FY 2013 to include a footnote defining case-by-case basis. The footnote reads: "Case-by-case is based on age/activity and the agency as those that are a revolving fund cannot be de-obligated without authorization as it could result in them being deficient." This updated language did not remediate the prior year NFR condition related to FEMA's lack of an escalation process for unresponsive other Federal agencies (OFA) to ensure the mission assignment UDO balances were validated prior to fiscal year-end.

FEMA's June 30 and September 30 high risk UDO journal voucher (JV) process increased the accuracy of FEMA's financial statements at September 30; however, it did not address the underlying issue that UDOs identified as invalid were not escalated in a timely manner for closeout. In addition, FEMA's high risk UDO JV did not include all the UDOs identified for closeout because certain UDOs that had been identified for closeout did not meet FEMA's business rules to be included in the June 30 or September 30 UDO JV population as documented in Exhibit 5-3 of FEMA's 2600-022, *Procedures for High Risk UDO Balance Write-off* SOP. For example, based on our control testwork performed over a sample of 25 UDO balances as of June 30, 2013, we noted that for 1 of the 25 UDOs selected, the UDO had been identified for deobligation and closeout during the UDO quarterly validation as of June 30, 2013. FEMA noted that the UDO did not meet the business rules to be included in the June 30, 2013 high risk UDO JV, but that it was being monitored on the Grants Program Directorate Closeout Log. However, as of September 30, 2013, the UDO had not been de-obligated.

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Recommendations:

We recommend that FEMA:

- Develop and implement an escalation process and closeout timeline for instances where the OFA does not provide validation of the mission assignment in a timely manner.
- Develop and implement procedures to ensure the timely deobligation and closeout of UDOs identified as no longer required.

FMC 13-14 – Certain Payroll Processing Control Deficiencies (NFR No. FEMA 13-28)

Based on process walkthroughs and interim internal control testwork, we determined FEMA did not have policies and procedures for resolving leave error discrepancies. In addition, in a sample of 45 individuals with leave error discrepancies, we noted 19 leave errors that were not corrected within one pay period. Of those 19 exceptions, 4 were not corrected by year-end.

Based on process walkthroughs, we determined that FEMA did not perform a reconciliation between data submitted through WebTA and what is paid by the third-party service provider.

Recommendations:

We recommend that FEMA:

- Develop and implement policies and procedures for resolving leave error discrepancies.
- Formalize and monitor the control over the review and resolution of leave error discrepancies.
- Develop and implement a control to reconcile payroll information submitted to the third-party service provider through WebTA with the related disbursement made by the provider.

FMC 13-15 – Deficiencies Identified over Claims' Loss Reserves at Selected Insurance Companies that Participate in FEMA's NFIP as of August 31, 2013 (NFR No. FEMA 13-29)

We tested 65 loss reserve balances as of February 28, 2013 and 65 loss reserve balances as of August 31, 2013, for a total of 130 loss reserve balances across 25 WYO insurance companies and the DSA. During this testwork, we noted the following exceptions related to management of loss reserves at the WYO insurance companies and the DSA, all of which caused reserves to be overstated:

- For two sample items, the loss reserve related to the claim transaction was not updated properly to reflect advance payments or additional adjuster reports.
- For three sample items, the loss reserve related to the claim transaction was not updated when the claim was closed.
- For one sample item, a claim was reopened to correct an overpayment and reserves were established in error.
- For one sample item, two dates of loss with separate loss reserves related to the same claim transaction were open at the same time.
- For one sample item, the loss reserve was calculated incorrectly.

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- For one sample, the loss reserve remained open on a claim with a date of loss older than 20 years; this claim should have been closed based on lack of claim activity, and the loss reserves should have been reduced to zero.

In addition, we noted the following exceptions related to incorrect transactions submitted from the WYO insurance companies and the DSA to the third-party service provider:

- For one sample item, a General Correction transaction was submitted with zeros instead of asterisks in the Contents reserve field. This field must be reported with asterisks to remove the Contents reserve; thus, the Contents reserves remained unchanged, causing reserves to be overstated.
- For four sample items, a Close Loss transaction was not submitted upon issuance of the claim payment, causing reserves to be overstated.
- For two sample items, a Change Reserves transaction was submitted to update the reserves for an advance payment. As advance payments automatically decrease reserves, this transaction double-counted the advance, causing reserves to be understated.
- For one sample item, a transaction was submitted with an incorrect decimal place, causing reserves to be overstated.

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 the specific and consistent establishment and reporting of loss reserves and subsequent adjustments to the loss reserves.
- Require WYO companies and the DSA to develop and implement procedures to review transactions prior to submission to the third-party service provider and to ensure such transactions are accurate and submitted timely.

FMC 13-16 – Issues Identified in Journal Voucher Testwork through September 30, 2013 (NFR No. FEMA 13-30)

Based on our JV testwork performed over a sample of 52 JVs as of March 31, 2013, we noted the following exceptions:

- Three JVs were corrections of previous JVs that would not have been necessary if the original entry was properly reviewed and approved to determine if the budget fiscal year was proper when the initial entry was recorded.
- One JV was created to address the budgetary impact of a transfer that was not recorded by BPAD; the JV would not have been necessary if the transfer had originally been posted correctly by BPAD.

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Based on our JV testwork performed over a sample of 21 JVs as of June 30, 2013, we noted the following exceptions:

- One JV was the auto-reversal of the correcting entry made in the transfer entry noted above; the JV would not have been necessary if the transfer had originally been posted correctly by BPAD.
- Two JVs related to the mandated sequestration and rescissions that took place during FY 2013. These two entries related to a sequence of JVs in which USSGL account 1010 was erroneously credited.

Based on our JV testwork performed over a sample of 26 JVs as of September 30, 2013, we noted the following exceptions:

- One JV was a correction of a previous JV for which only a portion of the JV was automatically reversed, which resulted in the need for a separate JV (the sample item selected) to be manually reversed in a later period. This JV would not have been necessary if the original entry had been properly recorded and reversed.
- One JV recorded the clearing of funds for advances related to canceling funds using USSGL transaction D114, which credits USSGL account 4881, when USSGL account 4871 should have been credited.

Recommendations:

We recommend that FEMA:

- Improve review procedures to ensure JVs are timely and thoroughly researched, reviewed, and approved prior to entering them into IFMIS. Proper review should include determining that the correct USSGL accounts are used in the JVs.
- Implement a process to adequately and timely review transactions recorded by BPAD personnel to ensure that budgetary transactions are properly recorded in the general ledger.

FMC 13-17 – Updates and Oversight Needed to Grant Accrual Standard Operating Procedures and Their Implementation (NFR No. FEMA 13-31)

The description of how to reconcile the grant accrual model inputs to the general ledger (GL) in FEMA's *Accounting Accrual – Grants – [Payment and Reporting System] PARS SOP*, issued March 15, 2013, was inaccurate and had not been properly updated to reflect the current process for reconciling inputs to the GL. In addition, FEMA's *Accounting Accrual – Grants – SmartLink SOP*, issued March 14, 2013, did not include documentation disclosing the inclusion of one non-grant Personal Identification Number in the grant accrual model data. These conditions resulted in a control failure related to the March 31, 2013 SmartLink and PARS Accrual Checklist procedure 1, "Perform quarterly review of data extract procedures. Update and document accordingly (update any changes or modifications)."

Based on control testwork performed over the JVs related to FEMA's March 31, 2013 PARS grant accrual model, we noted that for 3 of the 19 items, the JV was not reviewed by a FFC supervisory accountant.

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Because of the Government-wide shutdown, FEMA did not prepare the September 30, 2013 PARS accrual model until October 24, 2013. The delay in preparing the accrual resulted in additional grantee expenses being included in the model, which resulted in an artificially high liability balance of \$502.4 million. Although FEMA subsequently re-prepared the model appropriately using only expenses submitted prior to year-end, which resulted in a liability balance of \$290.1 million, the model prepared on October 24, 2013 demonstrated a control failure as PARS Accrual Checklist procedure #3, “Review underlying data to verify accuracy and completeness of data prior to uploading into Grant Accrual Dashboard,” was not properly completed.

We recommend that FEMA:

- Update its grant accrual SOPs to reflect current accrual processes.
- Conduct training to ensure that the individuals responsible for preparing and reviewing the grant accrual clearly understand their roles and responsibilities for the preparation and review of the grant accrual.
- Implement appropriate reviews to ensure the accuracy of the grant accrual.

FMC 13-18 – Improvements Needed in Management’s Review of the Acceptable Variance Ranges (NFR No. FEMA 13-32)

During our review of the March 31 and September 30, 2013 grant accruals, we noted that variances between estimated and actual advances and liabilities that exceeded the Acceptable Variance Range thresholds established by FEMA policies were not adequately addressed related to the SmartLink accrual as of September 30, 2012, and the PARS accruals as of September 30, 2012, December 31, 2012, March 31, 2013, and June 30, 2013.

Recommendation:

We recommend that FEMA thoroughly review, resolve, and document the resolution of large variances between estimated and actual advances and liabilities, including assessing the reasonableness of the estimation methodology.

FMC 13-19 – Untimely Review of SF-224, *Statement of Transactions* (NFR No. FEMA 13-33)

Based on control testwork performed, of the nine Standard Form (SF)-224s and Supplemental SF-224s submitted to the Government-wide Accounting system for March 2013, four SF-224 submissions were marked as reviewed on April 3, 2013, one day after submission of the SF-224s on April 2, 2013.

Recommendation:

We recommend that FEMA develop and implement policies and procedures to require supervisory review and approval of the SF-224s prior to submission.

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Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
FEMA	13-01	Inability to Link Systems to Significant Grant Programs				13-01
FEMA	13-02	Lack of Management Review Control for the Annual Subsidy Re-Estimate Calculation				13-02
FEMA	13-03	Insufficient Communication to Employees of the Department of Homeland Security Office of Inspector General Hotline and Code of Conduct				13-03
FEMA	13-04	Deficiencies in the Monthly Budget Execution Reviews				13-04
FEMA	13-05	Lack of Oversight by the National Flood Insurance Program (NFIP) Standards Committee				13-05
FEMA	13-06	Deficiencies Related to the Public Disclosure Filing Process				13-06
FEMA	13-07	Internal Control Deficiencies Identified over Claims Paid at Selected Insurance Companies that Participate in FEMA's NFIP as of March 31, 2013				13-07
FEMA	13-08	Internal Control Deficiencies Identified over Premiums Written by FEMA's NFIP				13-08
FEMA	13-08a	Internal Control Deficiencies Identified over Premiums Written by FEMA's NFIP as of August 31, 2013				13-08
FEMA	13-09	Ineffective Controls over Tracking Grants Eligible for Close-Out		G		
FEMA	13-10	Failure to Recertify Policies and Procedures in Various Areas		E		
FEMA	13-11	Non-Compliance with 5 Code of Federal Regulations (CFR) Part 2634 and 5 CFR Part 2638 Related to Ethics Requirements				13-09
FEMA	13-12	Ineffective Controls Related to Monitoring Undelivered Orders	D			
FEMA	13-13	Ineffective Controls over Procurement Obligations and Deobligations and Non-Compliance with the Federal Acquisition Regulation (FAR)	D			
FEMA	13-14	Untimely Deobligation of Undelivered Orders	D			
FEMA	13-15	Deficiencies in Policies and Procedures over Updating Loss Reserves at Insurance Companies that Participate in FEMA's NFIP				13-10
FEMA	13-16	Deficiency in the Travel Obligation Process at the Mississippi Recovery Office	D			
FEMA	13-17	Ineffective Controls over the Recording of Funding Transactions	D			
FEMA	13-18	Deficiencies in the Monthly SF-132 to SF-133 Reconciliation Review Process	D			
FEMA	13-19	Ineffective Controls over Intergovernmental Activity Deobligations and Payments	D			
FEMA	13-20	Monitoring of Audit Findings in Accordance with OMB Circular No. A-133		G	K	
FEMA	13-21	Ineffective Controls over Grants		G		

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Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
FEMA	13-22	Improper Processing of Undelivered Orders	D			
FEMA	13-23	Ineffective Controls over Grant Obligations, Deobligations, Payments, and Monitoring Efforts, and Non-Compliance with Cash Management Improvement Act		G		
FEMA	13-24	Non-Compliance with the Federal Financial Management Improvement Act of 1996			J	
FEMA	13-25	Deficiencies Identified in the Integrated Financial Management System Chart of Accounts and Transaction Codes				13-11
FEMA	13-26	Ineffective Controls over Intergovernmental Advances				13-12
FEMA	13-27	Deficiencies in Development of Mission Assignment Policies and Procedures and High Risk Undelivered Orders Write-off Process				13-13
FEMA	13-28	Certain Payroll Processing Control Deficiencies				13-14
FEMA	13-29	Deficiencies Identified over Claims' Loss Reserves at Selected Insurance Companies that Participate in FEMA's NFIP as of August 30, 2013				13-15
FEMA	13-30	Issues Identified in Journal Voucher Testwork through September 30, 2013				13-16
FEMA	13-31	Updates and Oversight Needed to Grant Accrual Standard Operating Procedures and Their Implementation				13-17
FEMA	13-32	Improvements Needed in Management's Review of the Acceptable Variance Ranges				13-18
FEMA	13-33	Untimely Review of SF-224, <i>Statement of Transactions</i>				13-19

¹Disposition Legend:

IAR Independent Auditors' Report dated December 11, 2013

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 Liabilities

G Grants Management

H Custodial Revenue and Drawback

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- I *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*
- J *Federal Financial Management Improvement Act of 1996 (FFMIA)*
- K *Single Audit Act Amendments of 1996*
- L *Antideficiency Act, as amended (ADA)*



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Appendix A
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