OFFICE OF INSPECTOR GENERAL

Federal Emergency Management Agency's Management Letter for DHS' FY 2014 Financial Statements Audit

Homeland Security

April 21, 2015

OIG-15-77

HIGHLIGHTS

Federal Emergency Management Agency's Management Letter for DHS' FY 2014 Financial Statements Audit

April 21, 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-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

KPMG LLP reviewed the Federal Emergency Management Agency (FEMA) internal control over financial reporting. The management letter contains 15 observations related to internal control and other operational matters for management's considerations.

KPMG LLP noted deficiencies and the need for improvement in certain FEMA 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

APR 21 2015

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

FROM: Mark Bell Mark Bell
Assistant Inspector General for Audits

SUBJECT: *Federal Emergency Management Agency's Management Letter for DHS' FY 2014 Financial Statements Audit*

Attached for your information is our final report, *Federal Emergency Management Agency'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. We will post the report on our website for public dissemination.

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, Federal Emergency Management Agency (FEMA)
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 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 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 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 thereforemay 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

Federal Emergency Management Agency
Financial Management Comments
September 30, 2014

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

Comment Reference	Subject	Page
FMC 14-01	Internal Control Deficiencies Identified over Premiums Written by FEMA's National Flood Insurance Program as of March 31, 2014	2
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	3
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	4
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	5
FMC 14-05	Issues Identified in Journal Voucher Testwork as of June 30, 2014	6
FMC 14-06	Ineffective Controls over the Preparation of the Annual Undelivered Order Certification	7
FMC 14-07	Ineffective Controls over Grant Accrual Journal Vouchers	7
FMC 14-08	Inability to Link Systems to Significant Grant Programs	7
FMC 14-09	Certain Payroll Processing Control Deficiencies	8
FMC 14-10	Deficiencies in the Budget Monthly Execution Report	9
FMC 14-11	Deficiencies Identified in the Web Integrated Financial Management Information System Chart of Accounts and Transaction Codes	9
FMC 14-12	Ineffective Controls over Recoveries of Prior Year Unpaid Obligations	10
FMC 14-13	Ineffective Controls over the Quarterly Undelivered Order Validation	11
FMC 14-14	Improvements Needed in Management's Review of the Acceptable Variance Ranges	11
FMC 14-15	Need for Additional Guidance on Accounting for Direct Loans	12

APPENDIX

Appendix	Subject	Page
A	Crosswalk – Financial Management Comments to Active Notices of Finding and Recommendation (NFRs)	13

FMC 14-01 – Internal Control Deficiencies Identified over Premiums Written by FEMA's National Flood Insurance Program as of March 31, 2014 ***(Notice of Finding and Recommendation (NFR) No. Federal Emergency Management Agency (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-Flood Insurance Rate Map (pre-FIRM) 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.

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 one exception related to incorrect Transaction Record Reporting and Processing (TRRP) transactions submitted from the Direct Servicing Agent (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 provider.

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 $13,000 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.

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 Office of Government Ethics (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.

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 BFY. 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.

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.

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.

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.

The 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.

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 one sample item where the within grade increase evaluation could not be located. FEMA was unable to provide appropriate documentation of management approval of the three 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.

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.

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 eight new transaction code request forms as of June 30, 2014 and nine 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 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 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 deobligations as of September 30, 2014, we noted FEMA did not provide the appropriate documentation to support the deobligation for three sample items.

Recommendations:
We recommend that FEMA:

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

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.

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.

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.

Federal Emergency Management Agency

Crosswalk – Financial Management Comments to Active NFRs

September 30, 2014

			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
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		
FEMA	14-08	Ineffective Controls over Intergovernmental Activity Obligations, Deobligations and Payments	D			
FEMA	14-09	Ineffective Controls over Procurement Obligations and Deobligations	D			
FEMA	14-10	Ineffective Controls over Grant Deobligations 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 Deobligation of Undelivered Orders	D			

Appendix A

Federal Emergency Management Agency

Crosswalk – Financial Management Comments to Active NFRs

September 30, 2014

			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
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
FEMA	14-32	Untimely Deobligation of Undelivered Orders	D			

[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)

Appendix A
Report Distribution

Department of Homeland Security

Secretary
Deputy Secretary
Chief of Staff
General Counsel
Executive Secretary
Director, GAO/OIG Liaison Office
Assistant Secretary for Office of Policy
Assistant Secretary for Office of Public Affairs
Assistant Secretary for Office of Legislative Affairs

Federal Emergency Management Agency

Administrator
Chief Financial Officer
Audit Liaison

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees

ADDITIONAL INFORMATION AND COPIES

To view this and any of our other reports, please visit our website at: www.oig.dhs.gov.

For further information or questions, please contact Office of Inspector General Public Affairs at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov. Follow us on Twitter at: @dhsoig.

OIG HOTLINE

To report fraud, waste, or abuse, visit our website at www.oig.dhs.gov and click on the red "Hotline" tab. If you cannot access our website, call our hotline at (800) 323-8603, fax our hotline at (202) 254-4297, or write to us at:

Department of Homeland Security
Office of Inspector General, Mail Stop 0305
Attention: Hotline
245 Murray Drive, SW
Washington, DC 20528-0305