

OFFICE OF INSPECTOR GENERAL

Independent Auditors' Report on DHS' FY 2015 Financial Statements and Internal Control over Financial Reporting



Homeland
Security

November 13, 2015
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DHS OIG HIGHLIGHTS

Independent Auditors' Report on DHS' FY 2015 Financial Statements and Internal Control over Financial Reporting

November 13, 2015

Why We Did This Audit

Sound financial practices and related management operations, reliable financial systems, and effective internal controls are essential for reliable, timely financial information that supports management decision making needed to achieve the Department of Homeland Security's (DHS) mission.

What We Recommend

KPMG LLP made 45 recommendations to address seven significant deficiencies, including issues related to financial reporting; information technology controls; and property, plant and equipment.

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

The independent public accounting firm KPMG LLP has issued an unmodified (clean) opinion on DHS' consolidated financial statements. In the independent auditors' opinion, the financial statements present fairly, in all material respects, DHS' financial position as of September 30, 2015.

KPMG LLP issued an adverse opinion on DHS' internal control over financial reporting of its financial statements as of September 30, 2015. The report identifies seven significant deficiencies in internal control; three of which are considered material weaknesses. The material weaknesses are in financial reporting; information technology controls and financial system functionality; and property, plant, and equipment. The report also identifies instances of noncompliance with four laws and regulations.

Management's Response

The Department concurred with the independent auditors' conclusions and indicated that management will continue to implement corrective actions to improve financial management and internal control.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

November 13, 2015

MEMORANDUM FOR: The Honorable Jeh C. Johnson
Secretary

FROM: John Roth 
Inspector General

SUBJECT: *Independent Auditors' Report on DHS' FY 2015 Financial Statements and Internal Control over Financial Reporting*

The attached report presents the results of an integrated audit of the Department of Homeland Security's (DHS) fiscal year (FY) 2015 financial statements and internal control over financial reporting. This is a mandatory audit required by the *Chief Financial Officers Act of 1990*, as amended by the *Department of Homeland Security Financial Accountability Act of 2004*. This report is incorporated into the Department's FY 2015 *Agency Financial Report*. We contracted with the independent public accounting firm KPMG LLP (KPMG) to conduct the audit.

The Department continued to improve financial management in FY 2015 and has achieved an unmodified (clean) opinion on all financial statements. However, KPMG issued an adverse opinion on DHS' internal control over financial reporting because of material weaknesses in internal control.

Summary

KPMG identified seven significant deficiencies in internal control, of which three are considered material weaknesses. DHS also identified the same material weaknesses in the *Secretary's Assurance Statement*.

The following are the three significant deficiencies in internal control considered to be material weaknesses, the four other significant deficiencies in internal control, and the four laws and regulations with which KPMG identified instances of DHS' noncompliance:

Significant Deficiencies Considered To Be Material Weaknesses

- Financial Reporting
- Information Technology Controls and Financial System Functionality
- Property, Plant, and Equipment



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Department of Homeland Security

Other Significant Deficiencies

- Budgetary Accounting
- Entity-Level Controls
- Grants Management
- Custodial Revenue and Drawback

Laws and Regulations with Identified Instances of Noncompliance

- *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*,
- *Single Audit Act Amendments of 1996*
- *Anti-deficiency Act (ADA)*
- *Federal Financial Management Improvement Act of 1996 (FFMIA)*

Moving DHS' Financial Management Forward

The Department continued its commitment to identifying areas for improvement, developing and monitoring corrective actions, and establishing and maintaining effective internal controls over financial reporting this past fiscal year. Looking forward, the Department must continue remediation efforts, and stay focused, in order to sustain its clean opinion on its financial statements and obtain an unqualified (clean) opinion on its internal control over financial reporting.

KPMG is responsible for the attached Independent Auditors' Report dated November 13, 2015, and the conclusions expressed in the report. To ensure the quality of the audit work performed, we evaluated KPMG's qualifications and independence, reviewed the approach and planning of the audit, monitored the progress of the audit at key points, reviewed and accepted KPMG's audit report, and performed other procedures that we deemed necessary. Additionally, we provided oversight of the audit of financial statements and certain accounts and activities conducted at key components within the Department. Our review, as differentiated from an audit in accordance with generally accepted governments auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or internal control or provide conclusions on compliance with laws and regulations. Our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted governments auditing standards.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of this report to appropriate congressional committees with oversight and



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Department of Homeland Security

appropriation responsibilities over the Department. In addition, we will post a copy of the report on our public website.

We request that the Office of the Chief Financial Officer provide us with a corrective action plan that demonstrates progress in addressing the report's recommendations. Please call me with any questions, or your staff may contact Mark Bell, Assistant Inspector General for Audits, at 202-254-4100.

Attachment



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Department of Homeland Security

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Washington, DC 20006

Independent Auditors' Report

Secretary and Inspector General
U.S. Department of Homeland Security:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of Homeland Security (DHS or Department), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Homeland Security as of September 30, 2015 and 2014, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in Notes 1T and 15 of the consolidated financial statements, the Department has intragovernmental debt of approximately \$23 billion used to finance the *National Flood Insurance Program* (NFIP) as of September 30, 2015. Due to the subsidized nature of the NFIP, the Department has determined that future insurance premiums, and other anticipated sources of revenue, may not be sufficient to repay this debt. Legislation will need to be enacted to provide funding to repay or forgive the debt. Our opinion is not modified with respect to this matter.

Other Matters

Management has elected to reference to information on websites or other forms of interactive data outside the *Agency Financial Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information in the Message from the Secretary, Message from the Chief Financial Officer, and Other Information section, as listed in the Table of Contents of the *DHS Agency Financial Report*, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Internal Control Over Financial Reporting

We have audited DHS's internal control over financial reporting as of September 30, 2015, based on criteria established in OMB Circular No. A-123, *Management's Responsibility for Internal Control* (OMB Circular A-123), Appendix A. DHS's management is responsible for maintaining effective internal control over financial reporting and for its evaluation of the effectiveness of internal control over financial reporting, included in the accompanying *Secretary's Assurance Statement* presented in the Management's Discussion and Analysis. Our responsibility is to express an opinion on the DHS's internal control over financial reporting based on our audit.

We conducted our audit in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.



An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of financial statements in accordance with U.S. generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected on a timely basis. The following material weaknesses described in the accompanying Exhibit I have been identified and included in the *Secretary's Assurance Statement*.

- A. Financial Reporting
- B. Information Technology Controls and Financial System Functionality
- C. Property, Plant, and Equipment

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, DHS has not maintained effective internal control over financial reporting as of September 30, 2015, based on the criteria established in OMB Circular No. A-123, *Management's Responsibility for Internal Control*, (OMB Circular A-123), Appendix A. We do not express an opinion or any other form of assurance on management's evaluation and assurances made in the *Secretary's Assurance Statement*.

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompanying Exhibit II to be significant deficiencies.

- D. Budgetary Accounting
- E. Entity-Level Controls
- F. Grants Management
- G. Custodial Revenue and Refunds and Drawbacks

This *Report on Internal Control Over Financial Reporting* is intended solely for the information and use of DHS management, the DHS Office of Inspector General, the U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.



Other Reporting Required by *Government Auditing Standards*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DHS's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02, and which are described in the accompanying Exhibit III.

- H. *Federal Managers' Financial Integrity Act of 1982*
- I. *Single Audit Act Amendments of 1996*
- J. *Antideficiency Act*

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed instances, as described in finding K of Exhibit III, where DHS's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

DHS's Responses to Findings

DHS's responses to the findings identified in our audit are attached to our report. DHS's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

KPMG LLP

November 13, 2015

Independent Auditors' Report

Introduction to Exhibits on Internal Control and Compliance and Other Matters

The internal control weaknesses in financial reporting, and findings related to compliance with certain laws, regulations, contracts, and grant agreements presented herein were identified during our audits of the U.S. Department of Homeland Security (Department or DHS)'s financial statements as of September 30, 2015 and internal control over financial reporting. Our findings are presented in three exhibits:

- Exhibit I** Findings that individually or in aggregate are considered material weaknesses in internal control over financial reporting affecting the DHS consolidated financial statements.
- Exhibit II** Findings that individually or in aggregate are considered significant deficiencies in internal control over financial reporting, which are less severe than a material weakness, yet important enough to merit attention of DHS management and others in positions of DHS oversight.
- Exhibit III** Instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters that are required to be reported under *Government Auditing Standards* or Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.
- Criteria** *Index of Financial Reporting and Internal Control Criteria*

Attachment Management's response to our findings

The determination of which findings rise to the level of a material weakness or significant deficiency is based on an evaluation of how deficiencies identified in all components, considered in aggregate, may affect the DHS financial statements as of September 30, 2015.

A summary of our findings in FY 2015 and FY 2014 are presented in the tables below:

Table 1 Presents a summary of our internal control findings, by component, for FY 2015.

Table 2 Presents a summary of our internal control findings, by component, for FY 2014.

We have reported three material weaknesses and four significant deficiencies at the Department level in FY 2015, as shown in Table 1. To provide trend information for the DHS components contributing to material weaknesses, Exhibit I contains trend tables next to the heading of each finding. The tables below and the trend tables in Exhibits I depict the severity by color (red boxes where component findings are more severe, and yellow boxes where component findings are less severe), and current status of findings, by component that contributed to that finding in FY 2014 and FY 2015. The DHS components that contributed to the finding in FY 2015 are listed in the title of each material weakness and significant deficiency included in Exhibits I and II, unless the finding was determined to be Department-wide.

The criteria supporting our findings, such as references from technical accounting standards, various rules and regulations, including requirements issued by the OMB and the U.S. Treasury, and internal Departmental and component directives, are presented in the *Index of Financial Reporting and Internal Control Criteria* behind Exhibit III.

Independent Auditors' Report
Introduction to Exhibits on Internal Control and Compliance and Other Matters

TABLE 1 – SUMMARIZED DHS FY 2015 INTERNAL CONTROL FINDINGS

Material Weaknesses: Exhibit I

	Comments / Financial Statement Area	DHS Consol.	USCG	CBP	FEMA	ICE	MGMT	NPPD	S&T	USSS
A	Financial Reporting	MW								
B	IT Controls and System Functionality	MW								
C	Property, Plant, and Equipment	MW								

Significant Deficiencies: Exhibit II

	Comments / Financial Statement Area	DHS Consol.	USCG	CBP	FEMA	ICE	MGMT	NPPD	S&T	USSS
D	Budgetary Accounting – Department-wide	SD								
E	Entity-Level Controls – Department-wide	SD								
F	Grants Management	SD								
G	Custodial Revenue and Refunds and Drawbacks	SD								

TABLE 2 – SUMMARIZED DHS FY 2014 INTERNAL CONTROL FINDINGS

Material Weaknesses

	Comments / Financial Statement Area	DHS Consol.	USCG	CBP	FEMA	ICE	MGMT	NPPD	S&T	USSS
A	Financial Reporting	MW								
B	IT Controls and System Functionality	MW								
C	Property, Plant, and Equipment	MW								
D	Budgetary Accounting	MW								

Significant Deficiencies

	Comments / Financial Statement Area	DHS Consol.	USCG	CBP	FEMA	ICE	MGMT	NPPD	S&T	USSS
E	Entity-Level Controls – Department-wide	SD								
F	Grants Management	SD								
G	Custodial Revenue and Refunds and Drawback	SD								

	Control deficiency findings are more significant to the evaluation of effectiveness of controls at the Department-level
	Control deficiency findings are less significant to the evaluation of effectiveness of controls at the Department-level
	Material weakness at the Department-level exists when all findings are aggregated
	Significant deficiency at the Department-level exists when all findings are aggregated

All components of DHS, as defined in Note 1A – *Reporting Entity* to the financial statements, were included in the scope of our integrated audits of the DHS financial statements and internal control over financial reporting of those financial statements. Accordingly, our audit considered significant account balances, transactions, and accounting processes of other DHS components not listed above. Control deficiencies identified in other DHS components that are not identified in the table above did not individually, or when combined with other component findings, contribute to a material weakness at the DHS consolidated financial statement level but may have contributed to Department-wide significant deficiencies.

Independent Auditors' Report
Exhibit I – Material Weaknesses

I-A Financial Reporting (USCG, ICE, MGMT, NPPD, S&T)

Background: Financial reporting continued to be a challenge for the Department. Although the Department continued to implement corrective action plans and made progress in certain areas, deficiencies remained. Specifically, financial reporting at the U.S. Coast Guard (USCG or Coast Guard) suffered from system functionality issues that were not sufficiently compensated for by manual internal controls.

Immigration and Customs Enforcement (ICE), Management Directorate (MGMT), National Protection and Programs Directorate (NPPD), and Science and Technology Directorate (S&T) continued to experience challenges in financial reporting, resulting in deficiencies in multiple processes as well.

United States Secret Service (USSS) remediated the prior year finding by implementing an effective review process over the key assumptions used in the actuarial pension estimate.

Conditions: We noted the following internal control weaknesses related to financial reporting at Coast Guard, ICE, and components serviced by ICE (i.e., MGMT, NPPD, and S&T).

1. Coast Guard:

- Lacked controls to prevent and/or timely detect financial reporting errors related to property, plant, and equipment (PP&E). Coast Guard continued to identify significant adjustments of PP&E resulting from continued remediation and ongoing clean-up efforts.
- Did not have formalized processes, internal controls, and evidentiary support of analyses performed to sufficiently monitor and evaluate current year activity and year-end balances (i.e., operating expenses, construction in progress, and operating materials and supplies) to compensate for its inability to rely on transactional data due to system limitations.
- Lacked adequate processes to ensure that non-standard adjustments (i.e., journal entries and top side adjustments) impacting the general ledger were adequately researched, supported, and reviewed prior to their recording in the general ledger.
- Did not adhere to existing policies and procedures to update, maintain, and review schedules that track environmental liabilities. Policies and procedures were not designed and implemented to ensure the completeness and accuracy of all underlying data elements used to record environmental liabilities.
- Was not able to fully support certain beginning balance and year-end close-out activities in its three general ledgers without significant manual effort.
- Was not able to identify and reconcile intra-governmental activities and balances or ensure that transactions were coded to the correct trading partner. Additionally, internal controls associated with the periodic confirmation and reconciliation of intergovernmental activity were not properly designed or fully implemented to ensure identified differences, especially with agencies outside of DHS, were resolved in a timely manner.
- Lacked properly designed and implemented and/or effective controls over the preparation and review of periodic financial information at an appropriate level of precision in various processes. These processes included fund balance with Treasury; operating expenses; accounts receivable; PP&E; environmental and actuarial liabilities; operating materials and supplies; accounts payable; and budgetary accounts.

Trend Table

	<u>2015</u>	<u>2014</u>
USCG		
ICE		
MGMT		
NPPD		
S&T		N/A
USSS	C	

Key – Trend Table

C	Deficiencies are corrected
N/A	No deficiencies reported
	Deficiencies are less severe*
	Deficiencies are more severe*

* See Introduction

Independent Auditors' Report
Exhibit I – Material Weaknesses

- Did not consistently maintain general ledger activity in compliance with the United States Standard General Ledger (USSGL) at the transaction level.
 - Did not fully assess risk, document processes, and implement sufficient controls over their actuarial pension and healthcare liabilities.
2. ICE:
- Lacked fully effective controls over journal entries to ensure supporting documentation clearly and fully explained the purpose of the entry; this also impacts journal entries posted on behalf of the serviced components (i.e., MGMT, NPPD, and S&T).
 - Did not properly design controls to reconcile fund balance with Treasury at the transaction level; this also impacts reconciliations prepared on behalf of the serviced components.
 - Lacked fully effective controls over the intra-departmental reconciliation process to ensure that all reconciling items were appropriately identified and reported; this also impacts intra-departmental reconciliations prepared for MGMT and S&T.
 - Lacked fully effective controls to ensure that expenses were properly reviewed to ensure proper receipt and reporting of goods and services prior to recording in the general ledger.
3. Components serviced by ICE (i.e. MGMT, NPPD, and S&T):
- Did not fully design internal controls to ensure accurate execution of processes and recording of transactions by the service provider related to consistently reliable, accurate, and timely financial reporting for all significant processes. Specifically, we noted controls were not properly designed and implemented to:
 - Sufficiently review depreciation expense at MGMT and S&T.
 - Reconcile beginning balances and intra-governmental activity at MGMT, NPPD, and S&T.
 - Review DHS Treasury Information Executive Repository (DHSTIER) analytics and fund balance with Treasury reconciliations at a sufficient level of precision at S&T.
 - Did not fully design controls over the accurate and timely recording of expenses at MGMT, NPPD, and S&T.
 - Did not fully design controls over accounts receivable and fund balance with Treasury, including monitoring of aged account receivable balances and timely clearing of suspense account balances at MGMT.
 - Did not have policies and procedures to properly track, account for, and report costs associated with large complex programs to ensure the proper capitalization of PP&E and recording of imputed costs at NPPD.

Cause/Effect: Coast Guard's financial reporting organizational structure lacks a sufficient number of skilled resources with adequate overall entity and financial acumen to provide appropriate financial reporting oversight necessary to monitor the Coast Guard's decentralized financial operations. Management did not possess a complete understanding of the Coast Guard actuarial pension and healthcare valuation processes, including assumptions and sources of data used in the valuations, to fully assess risk from a financial reporting perspective due to over reliance on contracted actuaries. In FY 2015, the Coast Guard devoted considerable attention to substantially completing residual remediation over PP&E balances; however, the Coast Guard did not properly assess the risk related to the current year impact of remediation when designing and executing their remediation plan. This resulted in significant difficulties for Coast Guard in providing complete and accurate data populations that sufficiently distinguished, at the transaction level, remediation activity from current year activity; thus, inhibiting management from performing adequate reviews of activity for reasonableness and alignment with current year business events. The Coast Guard focused its resources on development, documentation, and implementation of robust internal control

Independent Auditors' Report

Exhibit I – Material Weaknesses

procedures and validating the completeness and accuracy of account balances. Additionally, the Coast Guard's three legacy general ledger systems, developed over a decade ago, have severe functional limitations, contributing to the Coast Guard's inability to address pervasive internal control weaknesses in financial reporting, strengthen the control environment, and comply with relevant Federal financial system requirements and guidelines, notably Comment **III-K**, *Federal Financial Management Improvement Act of 1996* (FFMIA). Also refer to information technology (IT) system functionality issues described at Comment **I-B**, *Information Technology Controls and Financial Systems Functionality*. Coast Guard relies on significant manual interventions, which are more prone to error and better suited to detect rather than prevent errors, to attempt to compensate for these limitations. Despite these control deficiencies, Coast Guard was able to adequately support their account balances as of year-end.

Although ICE has made significant progress in ensuring consistent communication between decentralized operations, ICE continues to face challenges as a significant service provider for other departmental components (i.e., MGMT, NPPD, and S&T). Resource constraints in key financial reporting roles prevents the customer components from fully implementing controls to monitor all high risk processes performed by the service provider. NPPD has five subcomponents each with a diverse and significant mission. NPPD's Office of Cybersecurity and Communications has received significant appropriations in recent years. These appropriations have funded programs that require significant capital investments and recording of transactions which impact other federal agencies. NPPD faces organization challenges to ensure these programs and activities are identified at inception, and policies and procedures are put into place to ensure appropriate reporting of all transactions.

Because of the conditions noted above, and described throughout Exhibits I and II, the Department was unable to provide full assurance that internal controls over financial reporting were operating effectively at September 30, 2015. Management has acknowledged in the *Secretary's Assurance Statement*, presented in the *Management's Discussion and Analysis* section of the FY 2015 *Agency Financial Report* that material weaknesses and other internal control deficiencies continue to exist in some key financial processes. Also refer to Comment **III-H**, *Federal Managers' Financial Integrity Act of 1982*.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria*, after Exhibit III.

Recommendations: We recommend that:

1. Coast Guard:

- Establish new, or improve existing, policies, procedures, and related internal controls to ensure that:
 - All non-standard adjustments (i.e., journal entries and top side adjustments) impacting the general ledger are adequately researched, supported, and reviewed prior to their recording in the general ledger.
 - Transactions flowing between various general ledger systems, whether the result of remediation or system limitation manual workarounds, are sufficiently tracked and analyzed to ensure complete and accurate reporting of operational activity and related general ledger account balances.
 - Environmental liability schedules are updated, maintained, and reviewed.
 - Underlying data used in the estimation of environmental liabilities is complete and accurate.
 - The year-end close-out process, reconciliations, and financial data and account analysis procedures are supported by documentation, including evidence of effective management review and approval; and beginning balances in the following year are determined to be reliable and supported.
 - All intra-governmental activities and balances are reconciled on a timely basis, accurately reflected in the financial statements, and differences are resolved in a timely manner.

Independent Auditors' Report
Exhibit I – Material Weaknesses

- Adequate understanding and oversight of assumptions used in significant estimates is maintained by Coast Guard management and continued appropriateness of those assumptions are routinely evaluated.
 - Adopt policies, procedures, and accounting treatments documented in ad hoc technical accounting research papers into official financial reporting guidance that is distributed agency wide; and refine financial reporting policies and procedures to prescribe process level internal controls at a sufficient level of detail to ensure consistent application to mitigate related financial statement risks.
 - Identify and employ additional skilled resources and align them to financial reporting oversight roles.
 - Implement accounting and financial reporting processes and an integrated general ledger system that is FFMIA compliant.
 - Develop a comprehensive understanding of its actuarial evaluations and document the sources of all underlying data and assumptions.
2. ICE:
- Reinforce compliance with existing expense, intradepartmental reconciliation, and journal entry review policies and procedures, and design and implement controls to reconcile fund balance with Treasury at the transaction level.
3. Components serviced by ICE (i.e. MGMT, NPPD, and S&T):
- Improve existing policies, procedures, and internal controls related to monitoring activities performed by the service provider to ensure timely reporting of complete and accurate financial information at MGMT, NPPD, and S&T.
 - Consider enhancements and expansion to the financial accounting and reporting structure to improve internal control and supervisory review in key financial reporting processes at MGMT.
 - Design and implement controls to ensure programs with complex and unique transactions are identified and analyzed to ensure proper recording of financial activities at NPPD.

I-B Information Technology Controls (CBP, FEMA, ICE, USCG) and Financial System Functionality (Department-wide)

Background: During our FY 2015 assessment of general IT controls (GITCs) and process-level IT application controls, we noted that, although the DHS components made some progress in remediating IT findings we reported in FY 2014, new findings were noted in FY 2015. Some new findings were: (1) related to controls that were effective in prior years, or (2) control deficiencies noted over new systems that were similar to deficiencies previously reported.

As indicated in the table to the right, we noted a greater number of control deficiencies in GITCs this year. The GITC deficiencies that continued to exist across all components in FY 2015 represent an overall elevated IT risk to the Department, and certain deficiencies at U.S. Customs and Border Protection (CBP), Federal Emergency Management Agency (FEMA), ICE, and Coast Guard, collectively, are considered a material weakness.

During our IT audit procedures, we also evaluated and considered the impact of financial system functionality on financial reporting. In recent years, we have noted that limitations in DHS components' financial systems' functionality inhibit the Department's ability to implement and maintain effective internal control and to effectively and efficiently process and report financial data. At many components, key financial and feeder systems have not been substantially updated since being inherited from legacy

	2015	2014
CBP		
FEMA		
ICE		C
USCG		

Refer to page i.2 for table explanation

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Exhibit I – Material Weaknesses

agencies over 10 years ago. Many key DHS financial systems were not compliant with Federal financial management system requirements as defined by FFMA and OMB Circular Number A-123, Appendix D, *Compliance with Federal Financial Management Improvement Act of 1996*. Our observations related to functionality issues noted across all DHS systems, including at components which did not necessarily directly contribute to the IT material weakness but are associated with deficiencies reported elsewhere in this report, are described below. Furthermore, some DHS components use third-party systems for their human resource processes. We tested the end user controls that DHS is responsible for implementing and found that these controls failed across multiple components.

Conditions Related to GITCs: Weaknesses indicated in this exhibit represent a cross-section of GITC deficiencies identified at CBP, FEMA, ICE, and Coast Guard. We noted the following:

1. *Access Controls:*

- Management did not consistently or completely develop and formally document policies and procedures for managing and monitoring access to key financial applications and underlying system software components, including those owned and operated on behalf of DHS and components by third-party service organizations.
- Initial authorization and periodic recertification of application, database, and operating system user, service, and generic accounts (including emergency and temporary access) was inadequate, inconsistent, or in violation of the principles of least privilege and segregation of duties.
- Technical controls over logical access to key financial applications and underlying system software components, including password and inactivity requirements and account and data protection security configurations, were not consistently implemented in accordance with DHS requirements.
- Controls over the generation, review, analysis, and protection of application, database, and operating system audit logs were not fully implemented or were inconsistently performed.
- Transferred and/or terminated employees' and contractors' access privileges were not always consistently or timely removed from financial systems and general support systems, and controls related to review and revocation of system access were not always implemented or finalized.

2. *Configuration Management:*

- Management did not consistently or completely develop and formally document policies and procedures for the configuration management process.
- Vulnerability management activities, including performing internal scans of financial applications and system software, monitoring vulnerabilities identified, and implementing vendor-recommended patches to address known vulnerabilities, were not consistently performed.
- Monitoring controls to ensure the completeness and integrity of records of approved system changes for key financial systems were not always implemented.
- Configuration changes to financial systems were not consistently tested before deployment to the production environment.

3. *Segregation of Duties:*

- Implementation of segregation of duties for IT and financial management personnel with access to financial systems across several platforms and environments (including the development and production environments) was inadequate or incomplete.

4. *Contingency Planning:*

- Controls over the performance of periodic backups were not fully implemented.

Independent Auditors' Report

Exhibit I – Material Weaknesses

Conditions Related to Financial System Functionality:

In addition to the GITC deficiencies noted above at CBP, FEMA, ICE, and Coast Guard, we identified several instances across the Department where financial system functionality limitations were inhibiting DHS's ability to implement and maintain internal control, including process-level IT application controls supporting financial data processing and reporting. Financial system functionality limitations also contributed to other control deficiencies, reported in Exhibits I and II, and compliance findings, reported in Exhibit III. We noted persistent and pervasive financial system functionality conditions in the following general areas at multiple components:

- System software supporting key financial applications, feeder systems, and general support systems either lacked the required functionality to implement effective controls or were outdated and no longer supported by the respective vendors, resulting in unmitigated vulnerabilities that exposed underlying data to potential unauthorized and undetected access and exploitation.
- GITCs and financial process areas were implemented or supported by manual processes, outdated or decentralized systems or records management processes, or utilities with limited automated capabilities. These limitations introduced a high risk of error and resulted in inconsistent, incomplete, or inaccurate control execution and supporting documentation.
- Multiple components' financial system controls were not fully effective to efficiently provide readily auditable transaction populations without substantial manual intervention and additional supporting information which increased the risk of error.

In addition to these general areas, system limitations contributed to deficiencies noted in multiple financial process areas across the Department. For example, system configurations and posting logic deficiencies limited the effectiveness of controls to properly calculate the value of certain transactions, identify funding variances, or prevent or detect and correct excessive refund claims. In some cases, while components implemented manual processes to compensate for these limitations, these manual processes were prone to error and increased the risk that financial data and transactions were improperly posted to the respective systems.

Cause: The control deficiencies described in this exhibit stem from a number of systemic root causes across the affected DHS components. In many cases, resource limitations; ineffective or inadequate management oversight; the complex, highly interrelated yet decentralized nature of systems and system components; and/or error-prone manual processes resulted in inadequately designed and implemented or ineffectively operating controls. In some cases, cost-prohibitive options for vendor support have limited system development activity to "break/fix" and sustainment activities.

Effect: DHS management continued to recognize the need to modernize its financial systems. Until serious legacy IT issues are addressed and updated IT solutions are implemented, compensating controls and other complex manual workarounds must support the DHS and components' IT environment and financial reporting processes. As a result, DHS's difficulty attesting to a strong control environment, to include effective GITCs and reliance on key financial systems, will likely continue.

The conditions supporting our findings collectively limit DHS' ability to process, store, and report financial data in a manner to ensure accuracy, confidentiality, integrity, and availability. Some of the weaknesses may result in material errors in DHS's financial data that are not detected in a timely manner through the normal course of business. Because of the presence of IT control and financial system functionality weaknesses, there is added pressure on mitigating controls to operate effectively. Because mitigating controls were often more manually focused, there was an increased risk of human error that could materially affect the financial statements.

Criteria: We do not present relevant criteria for IT controls and financial system functionality due to the sensitive nature of DHS's systems.

Recommendations: We recommend that the DHS Office of the Chief Financial Officer (OCFO), in coordination with the Office of the Chief Information Officer (OCIO) and component management, continue the *Financial Systems Modernization* initiative, and make necessary improvements to the

Independent Auditors' Report
Exhibit I – Material Weaknesses

Department's and components' financial management systems and supporting IT security controls. Specific, more detailed recommendations were provided in individual limited distribution (For Official Use Only) Notices of Findings and Recommendations (NFRs) and separate letters provided to DHS and Component management.

I-C Property, Plant, and Equipment (USCG, NPPD)

Background: DHS property, plant, and equipment (PP&E) is primarily concentrated in a few large components. The Coast Guard maintained approximately 50 percent of DHS's general PP&E.

In FY 2015, the Coast Guard completed its remaining remediation activities related to enrollment of property, purchased prior to FY 2014, into the property subsidiary ledger. This was the culmination of a long-term effort and represents a significant accomplishment. However, many conditions continue to exist in the internal control over PP&E at the Coast Guard.

NPPD has several programs related to providing cyber security services to other federal agencies. These programs have received significant appropriations in recent years and are expected to grow in future years.

These programs will require significant investment in hardware and software. Underlying causes of control deficiencies affecting the identification and recording of PP&E for these programs are financial reporting in nature and have been grouped with conditions cited at Comment **I-A**, *Financial Reporting*.

CBP substantially completed remediation activities to address deficiencies in the timely recording of capitalized costs and in the classification of property, plant, and equipment between construction-in-progress (CIP) and "in-use." While deficiencies were identified in FY 2015, the severity of these deficiencies was significantly reduced as compared to FY 2014.

Conditions: We noted the following internal control weaknesses related to PP&E at Coast Guard:

1. Coast Guard did not:

- Design and implement sufficient controls to appropriately track asset activity at a transaction level, and ensure the timely recording of asset additions, deletions, or other adjustments in all general PP&E accounts.
- Sufficiently control, monitor, and track prior year "on-top" adjustments, recorded in lieu of recording individual transactions, to ensure timely and accurate recording of the activity to properly state beginning balances.
- Design and implement sufficient internal controls and related processes to review current year asset activity and related adjustments to ensure sufficient support of interim and year-end PP&E balances.
- Document policies and control procedures to identify capital assets that were not currently in service and awaiting decision for removal action.
- Design and implement controls over monitoring of CIP activity among USCG's multiple general ledgers to ensure appropriate recording of costs to related CIP projects.
- Design and implement controls to sufficiently track CIP activity at an asset level and reconcile CIP activity to reciprocal populations to ensure completeness and accuracy of related accounts (e.g., operating expenses, operating materials and supplies (OM&S), and PP&E).
- Review current year expenditures related to CIP projects timely in order to properly classify costs as capital or expense.
- Transfer completed assets from CIP to in-use assets in a timely manner.

	2015	2014
USCG		
NPPD	**	C
CBP	C	

** Refer to Comment I-A
Financial Reporting

Refer to page i.2 for table
 explanation

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Exhibit I – Material Weaknesses

- Adhere to established inventory policies and procedures, such as those regarding asset identification, system mapping, and asset tagging processes, to clearly differentiate and accurately track personal property assets in the fixed assets system. Additionally, control procedures over USCG's real property inventory process continued to be in remediation and thus were not fully designed and implemented to ensure the completeness, existence, and accuracy of real property assets.
- Verify that USCG's listing of leases is complete and accurate, and evaluate all lease agreements to ensure that they were appropriately categorized as operating or capital and properly reported in the financial statements and related disclosures.
- Fully design and implement policies and procedures to support the completeness, accuracy, and existence of all data utilized (e.g., real property multi-use assets) in developing required financial statement disclosures, and related supplementary information, for stewardship property.
- Design and implement sufficient policies and control procedures over monitoring OM&S through sufficient roll forward of subsidiary ledger activity, at a transaction level, in order to support the movement of quantity and the related valuation of OM&S as reported in the general ledger.
- Ensure adequate documentation to support OM&S issuance and receipt activity was maintained and transactions were accurately reflected in the general ledger.
- Appropriately identify and track items between those purchased for on-going CIP projects versus purchases of general OM&S in order to ensure costs were traceable and sufficiently supported at a transaction level and properly recorded in the respective general ledger accounts.
- Have effective controls over OM&S not managed by USCG inventory control points and the calculation of an allowance.
- Sufficiently analyze changes in quantity of OM&S between the date of the last physical inventory performed and the balance sheet date.

Cause/Effect: Coast Guard continued remediation over PP&E balances in FY 2015; however, Coast Guard did not properly assess the risk related to the current year impact of remediation when designing and executing its remediation plans. This resulted in significant difficulties for Coast Guard to provide complete and accurate data populations that sufficiently distinguished, at the transaction level, remediation activity from FY 2015 activity, thus, inhibiting management from performing adequate reviews of activity for reasonableness and alignment with current year business events. Development of sufficient processes to monitor and record CIP activity was constrained by the design of Coast Guard's large construction contracts. Contracts related to the construction of USCG's various property fleets are not structured in such a way that costs can be sufficiently tracked to ensure proper classification of expenditures and costs incurred are traced at an asset level. Additionally, USCG lacks a sufficient number of skilled resources to both develop, document, and implement robust internal control procedures while continuing to support account balances. System limitations, including the highly interrelated yet decentralized nature of systems and system components, as well as insufficient system attributes at a transaction level, contribute to the above noted instances. Significant manual workarounds are necessary to compensate for system limitations, but are not fully documented or designed and implemented to effectively address risks resulting from the system limitations.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria*, after Exhibit III.

Recommendations: We recommend that:

1. Coast Guard:
 - Design and implement controls to appropriately track asset activity at the transaction level and ensure the timely recording of asset additions, deletions, or other adjustments.

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Exhibit I – Material Weaknesses

- Develop processes and monitoring mechanisms to track CIP projects at an asset level and continue to implement controls over the transfer of completed CIP assets to in-use and accurately record leasehold improvements, asset impairments, and CIP activity.
- Design contracts for Coast Guard's major construction projects to isolate costs between development and maintenance (i.e., capitalizable vs. expense), at an individual asset level, in order to enhance traceability of CIP costs.
- Fully adhere to established inventory policies and procedures.
- Establish new, or improve existing, policies, procedures, and related internal controls to sufficiently review personal and real property activity and balances, including electronics, internal-use software, land, buildings and other structures, and verify costs are appropriate and reflect USCG's business operations during the fiscal year.
- Establish new, or improve existing, processes to identify and evaluate lease agreements to ensure they are appropriately classified as operating or capital, and are properly reported in the financial statements and related disclosures.
- Identify and employ additional skilled resources.
- Develop and implement procedures to support the completeness, accuracy, and existence of all data utilized (e.g., real property multi-use assets) in developing required financial statement disclosures, and related supplementary information, for stewardship property.

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Exhibit II – Significant Deficiencies

II-D Budgetary Accounting

Background: The Department made substantial and consistent progress in implementing and evaluating internal control over budgetary accounting. Notably, FEMA, which comprises approximately 54 percent of the Department's undelivered orders balance, substantially completed remediation to address the conditions noted in the prior years. While deficiencies were noted throughout the Department in FY 2015, the severity was significantly reduced compared to FY 2014.

Conditions: Throughout the Department, we noted that controls were not operating effectively to ensure:

- Consistent and appropriate validation of open obligations and timely de-obligation of undelivered orders.
- Timely and accurate recording of obligations and liquidations.
- Maintenance and availability of sufficient documentation to support budgetary activities such as obligations, de-obligations, modifications, liquidations, and recoveries of prior year obligations.

Additionally, we noted the general ledger system, utilized by ICE, MGMT, NPPD, and S&T, lacked automated controls to ensure all expenditures were within budgetary limits, payments were not processed in excess of available funding, and obligations were posted to the proper period.

Cause/Effect:

DHS has a decentralized structure that enables obligations to be recorded across a multitude of locations by various authorized personnel and contributes to the challenge of enforcing existing policies, procedures, and internal controls surrounding budgetary accounting. Weak controls in budgetary accounting increase the risk that the Department will misstate budgetary balances, and may lead to unintentional violations of the *Antideficiency Act* by overspending budget authority.

The budgetary processes at USCG, ICE, MGMT, NPPD, and S&T were further impacted by system limitations, system functionality issues, and applications control failures. Refer to Comment **I-B**, *Information Technology Controls and Financial System Functionality*.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria*, after Exhibit III.

Recommendations: We recommend that the Department adhere to and reinforce existing policies and procedures related to processing obligation transactions, and the periodic review and validation of undelivered orders. In particular, the Department should emphasize to all personnel throughout the Department involved in the budgetary process the importance of recording transactions timely, performing effective reviews of open obligations, obtaining proper approvals, and retaining supporting documentation.

II-E Entity-Level Controls

Background: Entity-level controls are pervasive across an entity. They include the entity's culture, values, and ethics as well as the attitudes, awareness, and actions of management and those charged with governance concerning the entity's internal control and its importance. Entity-level controls are often categorized as control environment, risk assessment, control activities, monitoring, and information and communications, as defined by the *Committee of Sponsoring Organizations* of the Treadway Commission (COSO) (1992 and 2013 versions), and the Government Accountability Office (GAO). These controls must be effective in order to create and sustain an organizational structure that is conducive to reliable financial reporting.

The Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, (OMB Circular No. A-123) assessment is also designed to assist with management's evaluation of control effectiveness and the remediation of control deficiencies, in accordance with an OMB approved plan.

Independent Auditors' Report

Exhibit II – Significant Deficiencies

The conditions below should be read in conjunction with Comment **I-A**, *Financial Reporting*.

Conditions and Recommendation and Cause/Effects:

During our audit we noted certain control deficiencies and underlying causes that were similar and pervasive throughout the Department. The resulting recommendations, which we provided to correct the deficiencies, are based on improvements needed in management's risk assessment process, communication practices throughout the Department and components, and its monitoring activities. Accordingly, the entity-level control deficiencies described below apply to the Department as a whole.

Risk Assessments: The Department and its components have not fully developed their risk assessment processes. As a result, events and transactions that have a greater likelihood of error are not always receiving an appropriate level of attention. Risk assessments should be improved at both the Department level by OCFO, and individual components annually, and updated during the year as needed. Examples of areas that should be addressed annually and updated periodically in the risk assessment are:

- Needs for technical and resource support to remediate severe control deficiencies and evaluate other areas where material financial statement errors could occur and not be identified and corrected timely.
- Training needs assessments for personnel to match skills with roles and responsibilities and identify gaps that could lead to financial statement errors.
- Coordination between smaller components that do not have the resources to fully support a separate financial management infrastructure and the Department to identify financial accounting and reporting risks and remediate control deficiencies.
- Identification of financial accounts and transactions that are susceptible to error due to weaknesses in IT general controls and IT systems functionality (e.g., limitations in budgetary subsidiary IT systems). Refer to Comment **I-B**, *Information Technology Controls and Financial System Functionality*.

Information and Communications: Communications between the Department and components, as well as between financial and IT management, should be improved to ensure:

- Roles and responsibilities of program and field personnel that provide key financial information are fully defined and that those personnel understand and comply with policies.
- Management has a sufficient understanding of the implication of IT vulnerabilities and limitations, and manual compensating internal controls are designed and implemented to mitigate risk.

Monitoring Controls: The Department and each component should design continuous monitoring controls around its annual risk assessment to ensure transactions with higher risk of error are adequately examined. Components with effective, detective monitoring controls should look for opportunities to implement more reliable controls earlier in the process to prevent errors at the transaction source. In addition, detective controls intended to compensate or mitigate weak preventive or process-level controls (e.g., management review controls of the financial statements) are not always designed at a level of precision to identify a significant error. Consequently, errors, or a combination of errors, in the financial statements could go undetected.

The Department's control environment, including executive level support for strong internal controls, continued progress in identification and remediation of control deficiencies, and progress in resolving financial IT system weaknesses will be critical to sustaining auditable financial statements in the future. These conditions were further evidenced through control deficiencies cited at Comment **I-A**, *Financial Reporting*.

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Exhibit II – Significant Deficiencies

II-F Grants Management

Background: FEMA is the primary grantor of DHS, managing multiple Federal disaster and non-disaster grant programs.

Conditions: The majority of the following internal control weaknesses related to grants management were previously reported in the prior year. We noted that FEMA did not:

- Compile a complete list of grantees requiring single audits to fully comply with the *Single Audit Act Amendments of 1996 (Single Audit Act)* and related OMB Circular No. A-133, *Audits of States, Local Governments, and Nonprofit Organizations* (OMB Circular A-133). Refer to Comment **III-I**, *Single Audit Act Amendments of 1996*.
- Issue Management Decision Letters timely for OMB Circular A-133 audit reports available in the Federal Audit Clearinghouse.
- Maintain accurate and timely documentation related to reviews performed of grantees' OMB Circular A-133 audit reports.
- Reconcile grantee quarterly financial reports to FEMA systems consistently and effectively.
- Implement a consistent, entity-wide process to monitor grantees' timely submission of quarterly financial reports.
- Implement a consistent, effective process to ensure timely closeout of FEMA grants.
- Implement a process to effectively reconcile grant award information maintained in grant IT systems to the general ledger.

Cause/Effect: FEMA did not fully implement policies and procedures over its grant program in order to ensure compliance with the *Single Audit Act* and OMB Circular A-133. In addition, FEMA did not have a grants IT system in place to efficiently and comprehensively track grants to help ensure that all programmatic events were accurately and timely completed and properly recorded to the general ledger. Manual processes, which were not always effective, were used to track grants that were eligible for close-out. Refer to Comment **I-B**, *Information Technology Controls and Financial System Functionality*. FEMA did not implement effective monitoring procedures over certain grant activities. As a result, misreported grantee expenses were not detected timely. The diversity of grant programs and systems within FEMA caused difficulty in assembling a comprehensive status of the cash on hand at grantees and the status of grants eligible for close-out, which creates risk of excessive cash on hand at grantees, untimely closure of grants, and an overstatement of undelivered orders.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria*, after Exhibit III.

Recommendations: We recommend that FEMA:

- Complete the implementation of policies and procedures to ensure full compliance with the *Single Audit Act* and the related OMB Circular No. A-133 related to receipt and review of grantees' single audit reports.
- Implement monitoring procedures over obtaining, reviewing timely, and reconciling required quarterly grantee reports.
- Develop and implement procedures to create and track comprehensive lists of FEMA grants that are eligible for close-out.
- Develop and implement procedures to reconcile grant award information maintained in grant IT systems to the general ledger.
- Implement a continuous quality assurance and grants monitoring process to include review of corrective actions resulting from implementation of the above recommendations.

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Exhibit II – Significant Deficiencies

II-G Custodial Revenue and Refunds and Drawbacks

Background: The Department collected approximately \$41 billion in import duties, taxes, and fees on merchandise arriving in the United States from foreign countries (identified below as the Entry Process). Receipts of import duties and related refunds were presented in the statement of custodial activity in the DHS consolidated financial statements. CBP is the primary collector of these revenues within the Department.

Refunds occur when a claimant has paid duties, taxes, fees, and interest in excess of the amount due. As a result, a refund check is issued. CBP issues a variety of refunds, including baggage declaration refunds, refunds of cash deposits in lieu of surety, mail refunds, and administrative refunds of formal entry collections.

Drawbacks are a remittance, in whole or in part, of duties, taxes, or fees previously paid by an importer. Drawbacks typically occur when the imported goods on which duties, taxes, or fees have been previously paid, and are subsequently exported from the United States or destroyed prior to entering the commerce of the United States.

Our findings over the entry process include conditions identified in bond sufficiency, liabilities for deposit accounts, and collections and deposits. CBP requires bonds from parties that import merchandise into the United States. These bonds are contracts to secure payment of duties, taxes, and fees in the event that an importer fails to fulfil their financial obligations. The assessment of liquidated damages against a bond serves to promote compliance with laws and regulations.

Collections received that cannot be matched to an associated transaction or receivable are posted to the Budget Clearing Account (BCA). These items, which are referred to as intentional postings, are reported on the balance sheet as liabilities for deposit accounts. After receipt of intentional postings, CBP researches the importer or broker to determine whether the amount submitted is due to CBP, as well as whether any additional amount is owed. After the determination is made, excess funds are remitted to the importer or broker, with the remainder ultimately paid to the U.S. Treasury.

Collections of cash and checks are made by port personnel on a daily basis for importer payment of duties, taxes, and fees. This collections detail is entered into CBP's system of record and then deposited with the U.S. Treasury.

Many of the conditions cited below have existed for several years. Management has stated that the timeframe for remediation of these conditions is dependent on funding for IT system upgrades and new system implementation.

Conditions: We identified the following internal control weaknesses related to custodial activities at CBP:

Related to Refunds and Drawbacks:

- The current entry/collections system lacked automated controls necessary to prevent, or detect and correct excessive drawback claims. The programming logic did not link drawback claims to imports at a detailed level. In addition, the system did not have the capability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries and export documentation upon which the drawback claim is based. Further, the system had not been configured to restrict drawback claims to 99 percent of each entry summary in accordance with regulation.
- Manual drawback review policies did not require drawback specialists to review all, or a statistically valid sample, of prior drawback claims against a selected import entry to determine whether, in the aggregate, an excessive amount was claimed against import entries.
- Documentation retention periods were not appropriate to ensure that support for drawback transactions was maintained for the full claim time period.
- The automated control designed to prevent a claimant from exceeding the continuous bond amount on file did not operate effectively.

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Exhibit II – Significant Deficiencies

- Controls over the review of refunds prior to disbursement were not operating effectively. Specifically, segregation of duties controls were not consistently enforced, and certain reports were not generated and reviewed in accordance with policies.

Related to the Entry Process:

- Controls over the review of Single Transaction Bonds were not operating effectively. The system for reviewing the sufficiency of bonds was not implemented until January 2015. Additionally, CBP was unable to provide documentation to support the review of certain Single Transaction Bonds. Certain bonds were insufficient to cover the value of duties, taxes, and fees for the associated entries.
- Existing policies and procedures for review, verification, and segregation of duties of entry edit and exception reports were not consistently followed.
- Controls over the collections and deposits process did not operate effectively. Specifically, certain collection files did not contain evidence of an independent verifier. Additionally, certain collection files did not contain evidence that the amount received by the bank agreed to the amount recorded in CBP's system of record.
- Controls over the review of the BCA report were not fully implemented during FY 2015. Port personnel did not review all intentional postings on the BCA report on at least a quarterly basis to ensure that intentional postings were removed timely and properly classified. In addition to deficiencies in the design and implementation of controls over the BCA report, we also identified specific instances of non-compliance with policies and procedures over Liabilities for Deposit Accounts, including the incorrect classification of intentional postings to Liabilities for Deposit Accounts after the review had been completed.

Cause/Effect: IT system functionality and outdated IT systems contribute to the weaknesses identified above. Refer to Comment **I-B**, *Information Technology Controls and Financial System Functionality*. For drawback, much of the process is manual until IT system functionality improvements are made, placing an added burden on limited resources and increasing the risk of error. CBP does not currently have sufficient resources to effectively perform compensating manual controls over drawback claims. CBP is pursuing changes to statutes, which govern the drawback process, to further reduce the need for manual controls. The length of the drawback claim lifecycle often extends beyond the documentation retention period, which is set by statute. Until effective automated and manual controls are implemented over the drawback process, CBP may be subject to financial loss due to possible excessive drawback claims.

Policies and procedures over the review of single transaction bonds were not implemented for the entire fiscal year. After implementation, CBP did not adhere to policies and procedures for the review of Single Transaction Bonds. Failure to consistently adhere to existing policies and procedures for the review of Single Transaction Bonds could lead to loss of revenue due to uncollected duties, taxes, and fees.

Policies and procedures over the review of entry edit and exception and collections and deposits reports were not consistently followed or reinforced in FY 2015. Ports did not always have sufficient contingency plans to ensure segregation of duties in the event of extended employee absences or terminations. Failure to consistently adhere to existing policies and procedures for review and verification of reports may result in a potential misstatement to the balance of taxes, duties, and trade receivables, net and total cash collections on the statement of custodial activities.

CBP did not have processes in place to ensure the timely review of intentional postings on the BCA report. The personnel reviewing the BCA report were often not the same as the personnel reviewing the intentional postings and did not have sufficient resources and information to perform an adequate review. Inadequate controls could result in the failure of CBP to identify amounts that are due to the Treasury General Fund.

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Exhibit II – Significant Deficiencies

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria*, after Exhibit III.

Recommendations: We recommend that CBP:

1. *Related to Refunds and Drawbacks:*

- Continue to pursue compensating controls and measures that could ultimately identify the potential revenue loss exposure to CBP. These compensating controls over drawback claims may lead to the ability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries and export documentation for which the drawback claim is based, and identify duplicate or excessive drawback claims.
- Develop and implement automated controls, where feasible, to prevent overpayment of a drawback claim.
- Continue to pursue Congressional action to change the statutory requirement for document retention.
- Continue to analyze current policies and procedures performed at the drawback centers and revise as necessary.
- Institute a periodic monitoring control to ensure that timely reconciliations are performed.
- Develop contingency plans to ensure adequate segregation of duties in the event of extended employee absences or terminations.

2. *Related to the Entry Process:*

- Update and redistribute guidance to necessary personnel regarding the appropriate CBP Directives and guidance that communicate the steps required for completing control procedures.
- Develop contingency plans to ensure adequate segregation of duties in the event of extended employee absences or terminations.
- Provide oversight and assistance at the headquarters-level to ensure that port personnel are adhering to procedures.

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Exhibit III – Compliance and Other Matters

III-H Federal Managers' Financial Integrity Act of 1982 (FMFIA)

FMFIA requires agencies to establish effective internal control and financial systems and to continuously evaluate and assess the effectiveness of their internal control. DHS's implementation of OMB Circular No. A-123 facilitates compliance with the FMFIA. DHS has implemented a Multi-Year Plan to achieve full assurance on internal control. However, the DHS *Secretary's Assurance Statement* dated November 13, 2015, as presented in *Management's Discussion and Analysis* of the Department's FY 2015 *Agency Financial Report (AFR)*, acknowledged the existence of material weaknesses, and therefore provided qualified assurance that internal control over financial reporting was operating effectively as of September 30, 2015. Management's findings were similar to the control deficiencies we have described in Exhibits I and II. However, continuous monitoring and testing of both financial and IT controls was not performed over all significant areas.

While we noted the Department progressed toward full compliance with FMFIA and OMB Circular No. A-123, the Department did not fully established effective systems, processes, policies, and testing procedures to ensure that internal controls are operating effectively throughout the Department.

Recommendations: We recommend that the Department continue its corrective actions to address internal control deficiencies in order to ensure full compliance with FMFIA and its OMB Circular No. A-123 approved plan in FY 2016. We also recommend that the Department conduct complete risk assessments to identify significant risk areas and continuously monitor and test the financial and IT controls within those areas.

III-I Single Audit Act Amendments of 1996 (Single Audit)

FEMA is the primary grantor of DHS, managing multiple Federal disaster and non-disaster grant programs. The *Single Audit Act Amendments of 1996*, as implemented by OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires agencies awarding grants to monitor their grantees; ensure they receive grantee reports timely; and follow-up on Single Audit findings to ensure that grantees take appropriate and timely action. Although FEMA monitors grantees and their audit findings, FEMA did not fully comply with provisions in OMB Circular No. A-133 in FY 2015. We noted that FEMA's monitoring efforts were inconsistent, and FEMA did not obtain and review all grantee *Single Audit* reports in a timely manner.

Recommendation: We recommend that FEMA implement the recommendations in Comment **II-F, Grants Management**.

III-J Antideficiency Act (ADA)

Various management reviews and OIG investigations are ongoing within the Department and its components, which may identify ADA violations, as follows:

- In response to a FY 2007 GAO report, the DHS OIG conducted a review of the NPPD legacy organization for FY 2006, and found that it violated the ADA with respect to the use of shared services. DHS formally notified the President, Congress, and GAO of the FY 2006 violation in FY 2014.
- Per the DHS OIG report and recommendations for the FY 2006 shared services violation, NPPD completed a review of FY 2007 - 2010 Management and Administration appropriation obligations for any potential shared service appropriation violations. NPPD has completed an investigation of a potential violation for one transaction related to shared services in FY 2007, and is in the process of preparing a package for notifying the President, Congress, and GAO.
- The independent investigation, at the Office of Intelligence and Analysis, related to the obligation of funds in excess of its continuing resolution apportionment in FY 2012 has been completed. The package to notify the President, Congress, and GAO of the violation is under review.
- In FY 2015, Coast Guard began investigations of three potential ADA violations. One potential violation is related to supplementing a research and development related appropriation through charging labor to customers for staff that were fully funded through other appropriations. The other

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Exhibit III – Compliance and Other Matters

two violations relate to using operating expense funding rather than acquisition, construction, and improvement funding for the development of the Integrated Health Information System and the procurement of the Aircrew Weapons Trainer.

- In FY 2014, investigations related to two potential ADA violations at Coast Guard were completed. One potential violation is related to the partial termination of a contract modification funded through an appropriation other than the original appropriation used to obligate the delivery order. The other potential violation is related to the potential use of an incorrect appropriation to pay for an in-scope contract modification. In FY 2015, legal counsel of Coast Guard and the Department have determined both incidents to not be violations of the ADA.
- The Department is investigating a potential ADA violation related to the incorrect use of component funds for services provided by the Office of the Chief Information Officer.
- ICE is investigating a potential ADA violation related to payments for the room, board, treatment, and medication of foreign nationals with mental health conditions following their release from ICE custody.
- In FY 2015, the Management Directorate completed the investigation of an overobligation of funds that occurred in FY 2013. The package to notify the President, Congress, and GAO of the violation is under review.

Recommendation: We recommend that the Department and its components complete the internal reviews currently planned or being performed, and properly report the results in accordance with the ADA, where necessary.

III-K Federal Financial Management Improvement Act of 1996 (FFMIA)

FFMIA Section 803(a) requires that agency Federal financial management systems comply with: (1) applicable Federal accounting standards; (2) Federal financial management system requirements; and (3) the United States Government Standard General Ledger (USSGL) at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability.

We noted that the Department has progressed toward compliance with FFMIA and remediated some of the conditions identified in the prior year. However, multiple components did not fully comply with at least one of the requirements of FFMIA. The reasons for noncompliance are reported in Exhibits I and II. The DHS Secretary stated in the *Secretary's Assurance Statement*, dated November 13, 2015, that the Department's financial management systems do not substantially conform to government-wide requirements mandated by FFMIA. The Department's remedial actions and related timeframes are also presented in the FY 2015 AFR.

An element within FFMIA, Federal system requirements, is ensuring security over financial management information. This element is addressed further in the *Federal Information Security Management Act of 2002* (FISMA), which was enacted as part of the *E-Government Act of 2002*. FISMA requires the head of each agency to be responsible for: (1) providing information security protections commensurate with the risk and magnitude of the harm resulting from unauthorized access, use, disclosure, disruption, modification, or destruction of (i) information collected or maintained and (ii) information systems used or operated; (2) complying with the requirements of the Act and related policies, procedures, standards, and guidelines, including (i) information security standards under the United States Code, Title 40, Section 11331, and (ii) information security standards and guidelines for national security systems; and (3) ensuring that information security management processes are integrated with agency strategic and operational planning processes.

We also noted weaknesses in financial systems security, reported by us in Comment **I-B, Information Technology Controls and Financial System Functionality**, which impact the Department's ability to fully comply with FISMA.

Independent Auditors' Report
Exhibit III – Compliance and Other Matters

Recommendation: We recommend that DHS improve its financial management systems to ensure compliance with FFMIA, and implement the recommendations provided in Exhibits I and II.

Independent Auditors' Report
Index of Financial Reporting and Internal Control Criteria
(Listed Alphabetically by Criteria Source)

Criteria	Reference	Report Exhibit
Budget Clearing Account and Suspense Item Report	Point 7	II-G
CBP 2013 Drawback Handbook, Issued (HB 3700-01B)	5.2 Accelerated Payment	II-G
CBP Business Rules and Process Documents (Internal) Version 3.3	7.2 Single Transaction Bonds	II-G
CBP Collection and Deposits Handbook (HB 5300-12B)	Section 1.4 Section 3.1	II-G
CBP Directive 3710-004B, <i>Refund of Miscellaneous Collections</i>	Section 2.2	II-G
CBP Directive 5610-004B, <i>Resolving Certain ACS Exception and Error Reports</i>	Section 5.4 Section 5.11	II-G
Code of Federal Regulations, Title 19	§111.23, §111.25, §113.13, §113.15, §113.26, §113.65, §163.4, §191.15, §191.38, §191.51, §191.92	II-G
Code of Federal Regulations, Title 31	§205.33	II-F
<i>Component Requirements Guide for Financial Reporting in FY 2015</i> , Version 3.0, April 2015	Section 3.1 Section 7.5 Section 8.16 Section 9.9 Section 9.10	I-A
	Section 9.9 Section 9.10	I-C
	Section 8.16	II-D
Department of Homeland Security Management Directive 125-02, <i>Interagency Agreements</i>	Section VI	II-D
Department of Homeland Security Management Directive 1104, <i>Fund Balance with Treasury</i>	Section VI	I-A
FASAB Technical Release 14: <i>Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment</i>	Paragraph 10	I-A, I-C
Federal Acquisition Regulation (FAR)	§4.804	II-D
<i>Federal Financial Management Improvement Act of 1996</i>	Section 803	I-A, I-C
<i>Federal Managers Financial Integrity Act of 1982</i>	Section 2	I-A, II-D, II-G
<i>Financial Resource Management Manual (FRMM COMDTINST M7100.3E)</i> , September 2013	Section 7.12 Section 7.13 Section 10.2 Section 10.3	I-A, I-C

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Criteria	Reference	Report Exhibit
<i>GAO Standards for Internal Control in the Federal Government</i>	Principle 4 Principle 7 Principle 10 Principle 12	I-A, II-D, II-F
<i>GAO FINANCIAL MANAGEMENT FFMIA Implementation Critical for Federal Accountability (GAO-02-29)</i>	Page 1, Paragraph 2	I-A
<i>GAO Principles of Federal Appropriations Law, Second Edition, Volume II (GAO-OGC-92-13)</i>	A. Introduction	II-D
<i>Memorandum of Agreement Between the Department of Homeland Security, Federal Law Enforcement Training Centers and the Requesting Agency Regarding the Use of the Federal Law Enforcement Training Centers</i>	Section VII	II-D
<i>OMB Circular No. A-11, Preparation, Submission, and Execution of the Budget, July 2013</i>	Section 31.5 Appendix B	I-A, I-C
<i>OMB Circular No. A-123, Management's Responsibility for Internal Control, Revised</i>	1. Purpose	II-D, II-G
	3. Policy	I-A, II-D, II-F, II-G
	I. Introduction	I-A, I-C, II-D, II-F, II-G
	II. Standards	II-D, II-G
	IV. Assessing Internal Control	I-A, II-G
	Appendix D	I-A, I-C
<i>OMB Circular No. A-127, Financial Management Systems, Revised</i>	Section 8	I-A
<i>OMB Circular No. A-133, Revised to show changes published in the Federal Registers of June 27, 2003 and June 26, 2007 Audits of States, Local Governments, and Non-Profit Organizations</i>	Subpart B Subpart D	II-F
<i>OMB Circular No. A-136, Financial Reporting Requirements, Revised</i>	Section V	I-A
<i>OMB Memorandum M-04-11, Service Organization Audits</i>	Paragraph 1	I-A
<i>Single Audit Act Amendments of 1996</i>	Section 7502	II-F
<i>Statement of Federal Financial Accounting Standards 1: Accounting for Selected Assets and Liabilities</i>	Paragraphs 39, 41, 45, 77	I-A
<i>Statement of Federal Financial Accounting Standards 3: Accounting for Inventory and Related Property</i>	Summary, Paragraph 1, 36, 37, 39	I-A, I-C

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Criteria	Reference	Report Exhibit
Statement of Federal Financial Accounting Standards 5: <i>Accounting for Liabilities of The Federal Government</i>	Paragraph 19	I-A
Statement of Federal Financial Accounting Standards 6: <i>Accounting for Property, Plant, and Equipment</i>	Paragraph 17, 18, 19, 26, 31, 34, 39	I-A
	Paragraph 17, 18, 19, 26, 31, 34, 39, 40	I-C
Statement of Federal Financial Accounting Standards 7: <i>Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting</i>	Paragraph 79	II-D
Statement of Federal Financial Accounting Standards 10: <i>Accounting for Internal Use Software</i>	Paragraphs 16, 18, 20	I-A, I-C
Statement of Federal Financial Accounting Standards 29: <i>Heritage Assets and Stewardship Land</i>	Paragraph 25	I-C
Statement of Federal Financial Accounting Standards 33: <i>Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates</i>	Paragraph 33	I-A
Statement of Federal Financial Accounting Standards 35: <i>Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23</i>	SFFAS 6 - Paragraph 40 SFFAS 23 - Paragraph 16	I-A, I-C
Statement of Federal Financial Accounting Standards 39: <i>Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards</i>	Paragraph 11, 12	I-A
Transportation Security Administration, Internal Standard Operating Procedure, <i>Manual Processing of Non-CIMS Awards</i>	Section 5	II-D
Transportation Security Administration, Internal Standard Operating Procedure, <i>Processing Prior Year Adjustments (PYA) to Budgetary Resources</i>	Section 5	II-D
Transportation Security Administration, Internal Standard Operating Procedure, <i>UDO Verification and Validation</i>	Section 5	II-D
Treasury Financial Manual, Volume I	- Part 2, Chapter 4700, Section 4706 - Part 2, Chapter 4700, Appendix 10 - Part 2, Chapter 5100, Appendix 2 - Fund Balance With Treasury Reconciliation Procedures: A Supplement to TFM Volume I, Part 2, Chapter 5100, Section C	I-A

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(Listed Alphabetically by Criteria Source)

Criteria	Reference	Report Exhibit
U.S. Department of Homeland Security Federal Emergency Management Agency Grant Programs Directorate Regional Coordination and Oversight Branch, <i>Cash Analysis Reporting SOP</i>	Section II, Part 3	II-F
United States Coast Guard Finance Center, Reports and Reconciliation Unit, <i>General IPAC Suspense Spreading Procedures</i>	Section 6.2	I-A
United States Coast Guard Finance Center, <i>Standard Operating Procedures Manual</i>	Chapter 12, Section A	I-A
United States Coast Guard <i>Environmental Liabilities Process Guide</i>	Section 2.3.3	I-A
United States Coast Guard, <i>Procedure for Physical Inventory and Year-End Certification of Personal Property</i>	Section 1.3 Section 5.5 Section 5.6 - 5.7	I-C
United States Coast Guard, <i>Procedure for Physical Inventory of Real Property</i>	Section 3.2	I-C
United States Coast Guard, National Pollution Fund Center Instruction 16451.2: <i>Technical Operating Procedures for Resource Documentation under The Oil Pollution Act of 1990</i>	Chapter 2, Section B	I-A
United States Coast Guard, National Pollution Fund Center, <i>Allowance for Doubtful Accounts Annual Rate Calculation</i>	Step 8	I-A
United States Coast Guard, <i>Procedures for the Accounts Payable Accrual Estimate and Validation</i>	Section 8	I-A
US Code Title 31, Chapter 13	§1341	II-D, II-F
US Code Title 31, Chapter 15	§1501, §1554	I-A, II-D



**Homeland
Security**

November 13, 2015

MEMORANDUM FOR: **John Roth**
Inspector General

FROM: **Chip Fulghum**
Deputy Under Secretary for Management and
Chief Financial Officer

SUBJECT: **Fiscal Year 2015 Financial and Internal Controls Audit**

Thank you for your audit report on the Department's financial statements and internal controls over financial reporting for fiscal years (FY) 2014 and 2015. We agree with the Independent Public Accountant's conclusions. Although the report indicates that DHS still faces financial management challenges, the Department has made strides in our accounting for property, plant, and equipment, and financial reporting. During FY 2015, our Components continued to implement corrective actions to significantly improve key financial management and internal control areas, while sustaining our unmodified audit opinion on all financial statements. As a result, in FY 2015, the Department significantly reduced the severity of our long-standing budgetary accounting internal control condition and it is no longer considered a material weakness.

We are focusing our efforts on remediating the remaining issues in FY 2016 as we pursue our goals of obtaining an unqualified audit opinion on our internal control over financial reporting. As we continue our steadfast progress, I look forward to working collaboratively with the Office of Inspector General and the Independent Public Accountant.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix A
Management's Comments to the Report

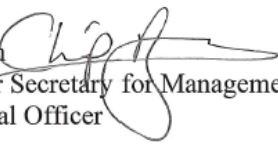
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Washington, DC 20528



**Homeland
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OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B
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