OFFICE OF INSPECTOR GENERAL

Management Letter for the Audit of DHS' FY 2015 Financial Statements and Internal Control over Financial Reporting

Homeland Security

March 31, 2016
OIG-16-55

DHS OIG HIGHLIGHTS

Management Letter for the Audit of DHS' FY 2015 Financial Statements and Internal Control over Financial Reporting

March 31, 2016

Why We Did This Audit

The *Chief Financial Officers Act of 1990* (Public Law 101-576) and the *Department Of Homeland Security Financial Accountability Act* (Public Law 108-330) require us to conduct an annual audit of the Department of Homeland Security's (DHS) consolidated financial statements and internal control over financial reporting.

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

We contracted with the independent public accounting firm KPMG LLP (KPMG) to audit DHS' fiscal year (FY) 2015 consolidated financial statements and internal control over financial reporting. KPMG expressed an unmodified (clean) opinion on the consolidated financial statements, and issued an adverse opinion on DHS' internal control over financial reporting for FY 2015. The management letter contains 89 observations related to internal control and other operational matters for management's consideration. KPMG noted deficiencies and the need for improvement in certain processes. These deficiencies did not meet the criteria to be reported in the *Independent Auditors' Report on DHS' FY 2015 Financial Statements and Internal Control over Financial Reporting*, dated November 13, 2015, included in the DHS FY 2015 *Agency Financial Report*.

DHS' Response

DHS' Office of Financial Management concurred with the report's observations and has indicated that the Department remains fully committed to addressing its financial management challenges.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

MAR 31 2016

MEMORANDUM FOR: Jeffrey Bobich
Director, Office of Financial Management
Office of Chief Financial Officer

FROM: Mark Bell Mark Bell
Assistant Inspector General for Audits

SUBJECT: *Management Letter for the Audit of DHS' FY 2015 Financial Statements and Internal Control over Financial Reporting*

Attached for your action is our final report, *Management Letter for the Audit of DHS' FY 2015 Financial Statements and Internal Control over Financial Reporting.* This report contains observations related to internal control deficiencies that were not required to be reported in the *Independent Auditors' Report* over the Department of Homeland Security (DHS) fiscal year (FY) 2015 financial statements and internal control over financial reporting. Internal control deficiencies were reported, as required, in the *Independent Auditors' Report*, dated November 13, 2015, which was included in the DHS FY 2015 *Agency Financial Report.* We do not require management's response to the recommendations.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination. The independent public accounting firm KPMG LLP conducted the audit of DHS' FY 2015 financial statements and is responsible for the attached management letter dated December 18, 2015, and the conclusions expressed in it.

Please call me with any questions, or your staff may contact Maureen Duddy, Deputy Assistant Inspector General for Audits, at (617) 565-8723.

Attachment

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

December 18, 2015

Office of Inspector General and Chief Financial Officer,
U.S. Department of Homeland Security,
Washington, DC

Ladies and Gentlemen:

In planning and performing our audit of the consolidated general purpose and closing package financial statements (hereinafter referred to as the "financial statements") of the U.S. Department of Homeland Security (DHS or Department), as of and for the year ended September 30, 2015, in accordance with auditing standards generally accepted in the United States of America and *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*, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements. In conjunction with our audit of the general purpose financial statements, we also performed an audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. Sections I through XIV of this letter provide our observations for your consideration, and have been indexed in the Table of Financial Management Comments. The disposition of each internal control deficiency identified during our FY 2015 audits – as either reported in our *Independent Auditors' Report*, or herein as a financial management letter comment – is presented in Appendix A. Our findings related to information technology systems have been presented in a separate letter to the DHS Office of Inspector General, DHS Chief Information Officer and DHS Chief Financial Officer.

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

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

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

DHS's response to the deficiencies identified in our audit is described in Appendix B. DHS's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Very truly yours,

KPMG LLP

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Department of Homeland Security
Financial Management Comments
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I. CUSTOMS AND BORDER PROTECTION (CBP)

CBP – Financial Management Comment (FMC) 15-01 – Inadequate Controls over Settlement of Assets *(Notice of Finding and Recommendation (NFR) No. CBP 15-02 & CBP 15-02a)*

We selected a statistical sample of eight general property, plant, and equipment (PP&E) asset settlement transactions recorded from October 1, 2014 through April 30, 2015 and identified the following:

- One instance involving personal property with a value of $412,348 in which an asset was not recorded as in service in the financial system on a timely basis in accordance with the timeframes specified in CBP's policies. Asset additions are subject to the 30-day posting timeframe between the date the asset was placed into service and the posting date in the financial system. Three months lapsed between the time when a completed asset had been placed into service and the time when CBP recorded the settlement transaction to move the asset from construction in progress to general PP&E. Additionally, CBP's monitoring control over incomplete assets did not detect that the completed asset was not settled in a timely manner.

We selected a statistical sample of six general PP&E asset settlement transactions recorded from May 1, 2015 through September 30, 2015 and identified the following:

- Four instances, two involving real property with a value of $16.8 million and two involving personal property with a value of $23.0 million, in which assets and asset upgrades were not recorded as in service in the financial system on a timely basis in accordance with the timeframes specified in CBP's policies. Asset additions are subject to the 30-day posting timeframe between the date the asset was placed into service and the posting date in the financial system. One to eight months lapsed between the time when the completed assets or upgrades had been placed into service and the time when CBP recorded the settlement transaction to move the asset from CIP to general PP&E.

- Two instances involving aircraft upgrades in which CBP incorrectly adjusted the manual depreciation on an asset. When CBP records an upgrade, CBP's financial system depreciates the entire gross value of the asset, rather than the net book value, over the remaining useful life. This results in excess depreciation, and as a result, CBP must manually adjust the depreciation for the asset. However, CBP reversed the sign of the depreciation adjustment in September, resulting in excess depreciation for the month of September.

- Two instances involving aircraft upgrades in which the useful life of the upgrade extended beyond the useful life disclosed in CBP's PP&E footnote.

Recommendations:
We recommend that CBP fully execute existing remediation plans to implement appropriate monitoring controls that ensure accountability at the project manager level for timely asset recordation and settlement, as well as compliance with stated policies and procedures. We also recommend that CBP implement controls to ensure that manual adjustments to depreciation are accurately recorded and that useful lives reported in the footnote are consistent with the useful lives of the underlying assets.

CBP – FMC 15-02 – Management Oversight of Property, Plant, and Equipment *(NFR No. CBP 15-06)*

During testwork over a statistical sample of ten general PP&E asset addition transactions recorded from October 1, 2014 through April 30, 2015, one asset addition was not timely recorded in the financial system in accordance with the 30-day timeframe specified in CBP's policies. Thirty-three days elapsed between the date the asset was received and the date the transaction was recorded in the financial system.

During testwork over a statistical sample of six general PP&E asset adjustment transactions recorded from October 1, 2014 through September 30, 2015, we identified one instance in which CBP received a property transfer receipt. Transfers are subject to the 30-day posting timeframe between the date the asset was received and the posting date in the financial system. However, 46 days elapsed between the date the asset was received and the date the transaction was recorded in the financial system.

Controls over CBP's annual personal property and equipment inventory did not operate effectively in FY 2015. Specifically,

- During site visits to various ports of entry during July and August, we traced a sample of 130 assets from floor to book. We found one instance in which a personal property item did not have a visible asset identifier.

- During testwork over general PP&E existence as of July 31, 2015, we identified a Radiation Portal Monitor asset consisting of 16 lanes that had been disassembled and added to other assets. While the net value of the asset transfer was $0, CBP did not have controls in place to track and maintain the current status of the asset's individual lanes.

Recommendations:
We recommend that the CBP Personal Property Program Management Office (PPPMO) continue to emphasize the importance of timely reporting of asset transactions by those at the field office. Further, we recommend that PPPMO continue to provide resources and guidance to assist the field offices in developing processes to ensure the timely and accurate reporting of transactions.

CBP – FMC 15-03 – Control Deficiencies over the In-Bond Process *(NFR No. CBP 15-08)*

Controls over the in-bond compliance exam process were not operating effectively during FY 2015. Specifically, during testwork performed over the in-bond compliance exams at seven ports of entry, we identified one of the 38 in-bond compliance exams selected did not include evidence that the exam had been completed.

Recommendations:
We recommend that CBP develop and implement standard operating procedures for issuance to personnel at ports of entry. Until such procedures have been implemented, we recommend that CBP issue a memorandum to field offices and ports of entry emphasizing the requirement to complete all in-bond examinations and audits, as well as to post all findings to the Cargo Enforcement Reporting and Tracking System (CERTS).

CBP – FMC 15-04 – Lack of Controls over Monitoring of Heritage Asset Collections *(NFR No. CBP 15-12)*

CBP lacked formally documented policies and procedures to ensure all assets comprising the collections of documents and artifacts are appropriately reviewed, classified, recorded, and safeguarded in accordance with Statements of Federal Financial Accounting Standards (SFFAS) No. 29, *Heritage Assets and Stewardship Land*. Additionally, CBP did not have controls in place to ensure all new and/or potential heritage assets are identified at ports of entry, Customs Houses and field units, and reported to the Historical Program Office.

We note the *U.S. Customs and Border Protection Public Affairs Policy Handbook* was developed in FY 2015, which assigns responsibility for the management and reporting of heritage assets as follows:

- Historical Program Office is responsible for management of heritage assets at the Ronald Reagan Building.
- The national and international field offices are responsible for management of heritage assets located at respective ports of entry, border patrol sectors and stations, and air and marine installations.
- The Office of Administration is responsible for reporting heritage assets.

However, the policy has not yet been approved by CBP management and formally issued across the organization.

Recommendation:
We recommend that CBP's Office of Administration secure the funding necessary to obtain contract services of a professional registrar to facilitate cataloguing of the collections at CBP Headquarters to meet the requirements found in SFFAS No. 29, and to work with CBP Office of Public Affairs History Program and Office of Administration to establish standards for managing heritage assets throughout CBP in all locations. We note the CBP Office of Public Affairs History Program anticipates needing these services for a period of two to four years.

CBP – FMC 15-05 – Failure to Establish and Review Significant Accounting Policies and Standard Operating Procedures in Various Areas *(NFR No. CBP 15-14)*

Controls to ensure that significant accounting policies and standard operating procedures were formally documented, complete, and updated and revised timely were not properly implemented in FY 2015. Specifically:

- CBP did not have a formal standard operating procedure to ensure the proper monitoring of overtime in order to prevent employees from exceeding the $35,000 legal threshold per employee.
- CBP did not have a formal standard operating procedure to ensure in-bond compliance exams and audits are consistently performed, reported, and documented in the CERTS across all ports of entry.

- CBP Directive 3510-005, *Bond Sufficiency*, had not been updated since May 17th, 1993, even though modifications to the bond monitoring process have occurred since that date.

- CBP Directive 3510-004, *Monetary Guidelines for Setting Bond Amounts*, had not been revised since July 23rd, 1991 to determine whether bond requirements should be updated based on current import/economic trends.

Recommendations:
We recommend that CBP implement entity-level controls across the organization to ensure the following:

- All significant policies and procedures are formally documented, meaning the policy has been written up in sufficient detail and the policy has been approved/authorized by personnel with authority to establish organizational policy.

- All significant policies and procedures are periodically reviewed and updated to ensure the policy remains current and applicable.

CBP – FMC 15-06 – Deficiencies in the Public and Confidential Financial Disclosure Reporting Process *(NFR No. CBP 15-15)*

We selected a sample of 15 public financial disclosure reports (PFDRs or Office of Government Ethics (OGE) Form 278s) and 45 confidential financial disclosure reports (CFDR or OGE Form 450s) and identified the following:

- Controls to ensure proper review of OGE-278s and OGE-450s did not operate effectively in FY 2015. Specifically, we identified the following:

  - Four instances where the review of the OGE-278 was initiated within the 60-day requirement, but the final review and certification was not completed until after the 60-days review period. In one instance, CBP was unable to provide documentation to evidence that the Ethics Official was actively working to complete the review (i.e. communicating with the filer to resolve open questions or discrepancies) prior to the end of the 60-day period. In two of the instances, the supervisor and Senior Legal Counsel (SLC) e-signed the filings within the 60 days, but the “Notes” had not been closed by the SLC, and therefore, the filing remained in the “Manage Exceptions” list, rather than being sent to the Designated Agency Ethics Official’s Worklist. In one instance, the Supervisor and SLC e-signed the report within 60 days, but Financial Disclosure Management (FDM) did not move the filing on to the Designated Agency Ethics Official for final review and certification.

  - Three instances where the initial review of the OGE-450 was completed within the 60-day requirement, but the final review and certification was not completed until after the 60-day review period. CBP was unable to provide documentation to evidence that the final reviewer was actively working to complete the review (i.e. communicating with the filer to resolve open questions or discrepancies) prior to the end of the 60-day period.

- One instance of noncompliance with Title 5 of the Code of Federal Regulations (CFR), Section 2634, where the filer had information outstanding on their 2014 incumbent OGE-278, and therefore, the review and certification of their 2015 filing could not be completed.

Recommendations:
We recommend that CBP:

- Create standard protocol for SLC to always close the "Notes" in FDM after e-signing a filing so that the filings are sent to the Designated Agency Ethics Official's Worklist, rather than remaining in "Manage Exceptions."

- Remain in contact with FDM Help Desk to determine if any filings have not been forwarded to Designated Agency Ethics Official.

- Develop standard operating procedures to address when a filer fails to amend their filing in a timely manner.

CBP – FMC 15-07 – Deficiencies in the Trade Compliance Measurement Review Process *(NFR No. CBP 15-17)*

Controls over the review of Trade Compliance Measurement entries were not effective during FY 2015. Specifically, during our testing of 90 Trade Compliance Measurement reviews performed during FY 2015, we found five instances where CBP was unable to provide appropriate supporting documentation showing that a review had been conducted in accordance with policies and procedures.

Recommendation:
We recommend that CBP's Office of Trade and Office of Financial Operations review policies and procedures to identify improvements that resolve causes of identified exceptions.

CBP – FMC 15-08 – Ineffective Controls over Review of Federal Employee Compensation Act (FECA) Claims *(NFR No. CBP 15-18)*

During our testwork over FECA Claims filed in FY 2015, we identified one instance where the Federal Notice of Traumatic Injury and Claim for Continuation of Pay/Compensation (CA-1) form had not been properly reviewed, and incorrect information was submitted to the Department of Labor (DOL).

Recommendation:
We recommend that CBP reinforce the importance of adhering to policies and procedures over the completion and approval of FECA forms.

CBP – FMC 15-09 – Improper Recording of Fines and Penalties Receivable *(NFR No. CBP 15-19)*

Controls did not exist to ensure that the fines and penalties receivable was correctly recorded, by case, in the Seized Assets and Case Tracking System (SEACATS). During testwork as of September 30, 2015, we reviewed a statistical sample of six open fines, penalties, and forfeiture (FP&F) receivables and identified one instance where the penalty amount related to an FP&F case was not written down to the proper amount after a Court of International Trade ruling. The amount of the open FP&F receivable for this case was recorded in SEACATS at $26.05 million when it should have been recorded at $17.30 million.

Recommendations:
We recommend that CBP emphasize the importance of accurately recording case updates within SEACATS. We also recommend that CBP implement monitoring controls and review procedures to ensure that case information is accurately recorded.

CBP – FMC 15-10 – Ineffective Control over Asset Disposals, as of September 30th, 2015 *(NFR No. CBP 15-20)*

We selected a sample of 45 PP&E asset retirement transactions processed from October 1, 2014 through September 30, 2015 and identified the following:

- Four instances involving personal property assets with a total acquisition value of $25.4 million in which an asset retirement was not recorded in the financial system in a timely manner in accordance with standard policies and procedures. Therefore, the asset value was overstated from the actual date of retirement until the retirement was recorded in the financial system. The asset retirements were recorded between one and nine months after the assets were removed from service.

- Two instances involving personal property assets with a total acquisition value of $834,137 at the time of disposal, in which the physical assets were disposed of without proof of disposal documentation in accordance with CBP policies.

- One instance involving a personal property asset with an acquisition value of $1.0 million in which the physical asset was disposed of prior to receiving proper approval in accordance with CBP policies.

- One instance involving personal property with an acquisition value of $63,362 in which a purchase was improperly capitalized as a group asset. Upon discovery of the error, the transaction was reversed. However, the reversal was improper as it recorded a loss on disposal. CBP ultimately corrected the error by inputting the asset into the financial system and subsequently retiring the recorded asset without recording a loss on disposal. However, this was not performed in a timely manner.

Recommendations:
We recommend that the CBP PPPMO continue to emphasize the importance of timely reporting of asset retirements by those at the field office. We also recommend that PPPMO emphasize the importance of receiving formal approval prior to the disposal of assets. Further, we recommend that PPPMO continue to monitor asset retirement transactions to identify and correct instances of non-compliance with policies and procedures.

CBP – FMC 15-11 – Deficiencies in Tracking Leases *(NFR No. CBP 15-21)*

- Controls to ensure completeness and accuracy of the lease population used to prepare the operating lease footnote disclosure did not operate effectively. During our testing of CBP's June 30, 2015 lease information, we selected a sample of 25 lease payments and identified the following:

    - Five instances in which CBP classified a lease as cancelable but did not disclose the non-cancelable period or calculate the future minimum lease payment.

    - One instance in which a lease was misclassified as a free space lease with no associated payment. As a result, this lease was not included in CBP's lease management schedule as of June 30, 2015.

- Based on these findings over the completeness of the population, we selected an additional sample of 25 lease payments and identified the following:

    - One instance in which CBP classified a lease as cancelable but did not disclose the non-cancelable period or calculate the future minimum lease payment.

    - One instance in which a lease was not on the lease management schedule due to improper identification in the system.

- Controls to ensure the accurate reporting of future minimum lease payments were not operating effectively. During our testing of CBP's year-end lease footnote information, we identified one instance in which a lease agreement was incorrectly included twice in the lease management schedule.

Recommendations:
We recommend that CBP design and implement controls to ensure information in the lease listing is accurate and that operating leases are properly disclosed in the footnote in accordance with authoritative guidance. We recommend that this include continued training to properly identify non-cancelable leases, as well as periodic quality assurance verifications to ensure that the lease data are appropriately recorded.

CBP – FMC 15-12 – Ineffective Controls in the Review of Adjusting Journal Entries *(NFR No. CBP 15-23)*

Controls over the review of adjusting journal entries did not operate effectively. CBP failed to reverse every line item of the FY 2014 year-end percentage of completion accrual. Specifically, CBP did not reverse standard general ledger (SGL) accounts 8801, *Offset to Asset Purchases*, and 8802, *Purchases of PP&E*. SGLs 8801 and 8802 were used in creating the reconciliation of net cost to budget footnote.

Recommendation:
We recommend that CBP ensure all line items are properly identified for reversal at the time of initial adjusting journal entry preparation.

CBP – FMC 15-13 – Lack of Control over Advances and Prepayments *(NFR No. CBP 15-24)*

We determined CBP did not have a control in place to ensure year-end intra-governmental balances reported for advances and prepayments are accurate. Specifically, we noted a difference of $23.2 million for the reported balance at September 30, 2015 with the Department of Transportation (DOT). We issued a confirmation to the DOT to confirm the year-end balance of $118.8 million reported by CBP. Per the confirmation response, the DOT reported an ending balance of $95.6 million. CBP provided supporting documentation that $14.8 million of the difference resulted from untimely processing of goods receipts and invoices. The remaining $8.4 million resulted from a DOT accrual at September 30, 2015.

Recommendations:
We recommend that CBP devote resources to reconcile invoices with the DOT on a monthly basis. Additionally, we recommend that CBP record an accrual for unprocessed goods and services received. Further, we recommend that CBP work with other government agencies to confirm and reconcile their advances and prepayments balances.

CBP – FMC 15-14 – Ineffective Application of Allowance Methodology *(NFR No. CBP 15-25)*

Controls over CBP's process for estimating the allowance for doubtful accounts of taxes, duties, and trade receivables did not operate effectively in FY 2015. Specifically, we noted the specialist engaged to review and assess CBP's sampling methodology used to calculate the balance concluded that, while the statistical sampling methodology is valid, there are deficiencies over the implementation of the methodology that could yield unreliable results and inconsistency between documentation and execution.

Recommendation:
We recommend that CBP consider the recommendations identified by the specialist and implement procedures to ensure the proper recording of the allowance for doubtful accounts of taxes, duties, and trade receivables.

CBP – FMC 15-15 – Ineffective Controls in the Seized and Forfeited Property Inventory Process *(NFR No. CBP 15-26)*

Controls over the physical inventory of seized and forfeited property were not effective during the FY 2015 annual inventory. Specifically, during testwork at nine seized property vaults, we identified one instance in which a weight change was updated in SEACATS but not properly updated on the 6051-I, *Shelf Weight Inventory and Recordation Log*.

Recommendations:
We recommend that CBP management redistribute previously issued policies and procedures to the Office of Field Operations and ports of entry. We also recommend that CBP emphasize the policy over documenting and updating the original 6051-I, *Shelf Weight Inventory and Recordation Log* at each stage of seizure processing and as part of the annual year-end inventory.

II. DOMESTIC NUCLEAR DETECTION OFFICE (DNDO)

DNDO– FMC 15-01 – Undelivered Orders Population Provided for Audit *(NFR No. DNDO 15-01)*

Controls were not operating effectively to ensure the detail of obligation balances, provided for audit purposes, were complete and accurate. Specifically, we noted one instance in which an obligation balance was incorrectly presented as part of the current balances of undelivered orders.

Recommendation:
We recommend that DNDO strengthen controls to ensure that obligation balance populations provided for audit purposes are complete and accurate.

III. FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)

FEMA – FMC 15-01 – Failure to Review Policies and Procedures in Various Areas *(NFR No. FEMA 15-01)*

We completed our testwork of FEMA's list of policies, directives, and doctrines as of August 31, 2015, and found that 151 (42.78%) of the 353 active policies, directives and doctrines being monitored by FEMA were overdue for review in accordance with the three year review requirement specified in Directive 112-12.

Recommendations:
We recommend that FEMA reissue FEMA Directive 112-12 with a supporting instruction 112-12-1. This Directive should provide additional flexibilities related to FEMA's review standard setting a four year review cycle as the default, but allowing for more or less time based upon the nature of the product (the current review standard is three years). The Office of Policy and Program Analysis (OPPA) should complete the transition of FEMA's inventory of doctrine, policies, directives and manuals to a new SharePoint system accessible to all FEMA employees. This system should provide greater transparency to FEMA's doctrine, policies, directives and manuals (to be renamed "instructions") and reduce the data errors encountered when using an Excel format. Finally, FEMA should continue to update doctrine, policies, directives and manuals to ensure the direction is consistent with FEMA's authority, policy direction and strategic intent. Quarterly forecasts should be issued by OPPA and adjudicated with the component policy organizations.

FEMA – FMC 15-02 – Issues Identified in Journal Voucher Testwork as of March 31, 2015 *(NFR No. FEMA 15-02)*

Based on our testwork performed over a sample of 54 journal vouchers as of March 31, 2015, we identified the following exceptions:

- Three instances in which review of the approved journal entries did not identify errors in the entries prior to their recordation in the general ledger.

- One instance in which an entry was incorrectly recorded to budget FY 2015 rather than budget FY 2014. Although management self-identified this discrepancy and recorded a correction entry, the initial review of the journal voucher for approval did not identify this error.

- One instance in which an entry was incorrectly recorded to budget FY 2014 rather than budget FY 2015.

- One instance in which the approved manual journal voucher did not agree to the journal voucher posted in the financial system.

- One instance in which initial journal voucher review during the approval process did not identify incorrect SGL accounts prior to recordation.

Recommendation:
We recommend that FEMA dedicate sufficient resources, including appropriate management oversight, to ensure journal vouchers are thoroughly researched, reviewed, and approved prior to the initial entry into the financial system. Proper review should include verifying attributes based on support such as, correct vendor, fiscal year, budget fiscal year, general ledger account, and fund.

FEMA – FMC 15-03 –Payroll Processing Control Deficiencies *(NFR No. FEMA 15-03)*

Controls over the payroll process were not properly designed and implemented in FY 2015. Specifically,

- FEMA did not perform a reconciliation between payroll data it submitted to the National Finance Center through WebTA and the National Finance Center's output payroll disbursement file.

- FEMA relied solely on electronic review and approval of timesheets within WebTA to ensure completeness and accuracy of payroll data submitted to the National Finance Center for processing. User access controls (i.e. general information technology controls or "GITCs") within the WebTA application were not operating effectively. Due to the GITC deficiency identified, manual compensating controls were necessary to ensure proper approval of timesheets within WebTA had occurred; however, based on walkthroughs with FEMA management, there were no manual compensating controls in place.

Recommendations:
We recommend that FEMA:

- Develop and implement a control to reconcile payroll information submitted to the National Finance Center through WebTA with the related information accompanying the disbursement made by the National Finance Center.

- Develop and implement manual policies and procedures for approving employee time to compensate for the lack of adequate GITCs and ensure that time reported is properly reported.

FEMA – FMC 15-04 – Deficiencies in the Web Integrated Financial Management Information System (WebIFMIS) Chart of Accounts *(NFR No. FEMA 15-04 and 15-04a)*

Based on our review of the FEMA FY 2015 WebIFMIS chart of accounts, we noted:

- Ten subaccounts were mapped incorrectly or listed under the wrong primary account in FEMA's WebIFMIS chart of accounts.

- Four accounts listed in FEMA's WebIFMIS chart of accounts that were not include within the United States Standard General Ledger (USSGL).

Recommendation:
We recommend that management develop and implement a monitoring process to review the WebIFMIS chart of accounts to ensure that accounts are set up properly and in compliance with USSGL on a monthly basis.

FEMA – FMC 15-05 – Non-Compliance with 5 Code of Federal Regulations (CFR) Part 2634 and 5 CFR Part 2368 Related to Ethics Requirements *(NFR No. FEMA 15-05)*

- We selected a sample of 20 FEMA employees required to complete an ethics training course in calendar year 2015 and found that FEMA was unable to provide documentation to support, either through the FEMA Employee Knowledge Center transcripts or other relevant evidence (i.e. training sign-in sheets), that eight of the employees had completed the required ethics training in calendar year 2014.

- We selected a sample of 15 FEMA employees required to submit an OGE-278 in FY 2015 and identified the following exceptions:

  - For two OGE-278 submissions, the ethics official had not completed their initial review within the timeframe specified by the Office of Government Ethics.

  - One filer had not submitted their OGE-278 submission within the timeframe specified by the Office of Government Ethics.

- We selected a sample of 25 FEMA employees required to submit an OGE-450 in FY 2015 and identified the following exceptions:

  - The ethics official had not completed their review of four OGE-450 submissions within the timeframe specified by the Office of Government Ethics.

  - Three filers had not submitted their OGE-450 within the timeframe specified by the Office of Government Ethics.

Recommendations:
We recommend that FEMA:

- Implement proper policies and procedures to ensure required trainings, including those delivered outside the FEMA Employee Knowledge Center, are documented and tracked appropriately for all FEMA employees.

- Ensure proper policies and procedures, including appropriate staffing and training, are in place to properly identify and review financial disclosure forms.

FEMA – FMC 15-06 – Deficiencies in the WebIFMIS Transaction Codes *(NFR No. FEMA 15-06)*

Based on our control testwork performed over eight new transaction code request forms as of June 30, 2015, we noted that for one transaction code, the associated general ledger entry was not included within the USSGL.

Based on our substantive testwork performed over 35 active transaction codes as of June 30, 2015, we identified the following:

- Four transaction codes on the WebIFMIS transaction code listing were not compliant with the USSGL.

- Six transaction codes on the WebIFMIS transaction code listing did not contain the corresponding budgetary/proprietary entry as required in accordance with the USSGL.

Recommendations:
We recommend that FEMA:

- Develop a procedure which requires the relevant business need for each new transaction code to be documented and reviewed in conjunction with the transaction code review.

- Develop and implement policies and procedures to ensure periodic reviews of all transaction codes in WebIFMIS to:

    - Document transaction code compliance with the USSGL.

    - Document deviations from the USSGL requirements.

    - Document limitations on the allowed usage of the transaction codes.

    - Remove transaction codes which no longer have a valid business reason.

FEMA – FMC 15-07 – Ineffective Controls over Procurement Contract Management and Non-Compliance with Federal Acquisition Regulation (FAR) ***(NFR No. FEMA 15-07)***

We performed testwork over a sample of 60 contracts for the six-month period ended March 31, 2015, and identified the following exceptions:

- For four samples, FEMA management was unable to provide the appropriate FAR compliance checklist.

- For two samples, the contract file requested could not be provided timely.

Recommendations:
We recommend that FEMA:

- Develop and implement policies to ensure that support demonstrating compliance with laws and regulations, including the FAR, is readily available for all current year activity.

- Develop and implement a monitoring program to ensure the controls implemented to aid in ensuring compliance with the FAR are operating effectively.

FEMA – FMC 15-08 – Ineffective Controls over Intergovernmental Activity Payments ***(NFR No. FEMA 15-10)***

Based on our control testwork performed over a sample of 43 Intra-Governmental Payment and Collections (IPACs) for the nine-month period ended June 30, 2015, we noted:

- Three instances in which the approving official failed to review and approve the IPAC in a timely manner (90 days) after receiving the IPAC from the FEMA Finance Center.

- One instance in which a vendor-related payment was coded to the incorrect business object class when the payment was recorded in WebIFMIS.

Recommendations:
We recommend that FEMA:

- Reinforce to personnel the importance of controls related to the adequate and timely review of obligations and de-obligations prior to posting in WebIFMIS.

- Reinforce to personnel and enforce the requirement for adequate review of interagency payment transactions and supporting documentation as specified in FEMA's established procedures.

FEMA – FMC 15-09 – Deficiencies in the Authorization and Approval of Personnel Actions *(NFR No. FEMA 15-12)*

FEMA relies solely on electronic review and approval of personnel actions within the EmpowHR human resources application to ensure completeness and accuracy of human resource data submitted to the National Finance Center. However, user access controls (i.e. GITCs) over the application were not operating effectively. Due to the GITC deficiencies identified, manual compensating controls were necessary to ensure proper approval of personnel actions within EmpowHR had occurred; however, based on walkthroughs with FEMA management, manual compensating controls had not been implemented.

We tested a total of 45 personnel actions during FY 2015 and noted the following:

- Eight instances in which FEMA was unable to provide the appropriate documentation to validate personnel actions.

- Nine instances in which the related personnel action became effective before it was approved by management.

- Two instances in which FEMA was unable to provide the corresponding Request for Personnel Action (SF-52), which evidences proper authorization prior to processing.

- Twenty-five instances in which both of the following occurred:

  - FEMA was unable to obtain the corresponding SF-52 that related to the personnel action evidencing proper authorization prior to processing.

  - The personnel action became effective before it was approved by management.

Recommendations:
We recommend that FEMA:

- Develop a manual process to ensure that personnel actions are properly authorized in the EmpowHR system in order to compensate for the EmpowHR GITC deficiencies.

- Dedicate sufficient resources to properly review and approve personnel actions timely and accurately.

FEMA – FMC 15-10 – Ineffective Controls over Grant Monitoring Efforts *(NFR No. FEMA 15-13)*

Controls surrounding the site visit monitoring process did not operate effectively in FY 2015. We noted the following exceptions during the testwork performed over a sample of 60 site visit and desk reviews selected for the six-month period ended March 31, 2015:

- Six instances in which the protocols/monitoring summary and dated post-monitoring letter were not submitted to the grant recipient within 45 business days of completion of the site visit.

- Five instances in which the grant award reported on the Monitoring Data Repository template did not agree to the grant award balance reported on the protocols/monitoring summary and dated post-monitoring letter submitted to the grant recipient.

Recommendations:
We recommend that FEMA:

- Reinforce the standard policies and procedures for regional offices and headquarters Award Administration Branches to ensure that monitoring reports are submitted in a timely manner as set forth in the Monitoring Plan.

- Reiterate the responsibility and accountability for the Grants Management Specialist to update the baseline schedule in the Monitoring Database Repository with the most up-to-date information provided on the submitted monitoring reports.

FEMA – FMC 15-11 – Ineffective Controls over Grant Accrual Journal Vouchers *(NFR No. FEMA 15-15)*

Based on our control testwork performed over FEMA's three grant accrual models, we determined that one journal voucher was prepared improperly as the credits annotated ($5,613,393) did not equal debits annotated ($5,613,398). We note that while the credits and debits recorded in the financial system balanced, the amount recorded ($5,613,398) did not agree to the grant accrual model ($5,613,393).

Recommendation:
We recommend that FEMA dedicate sufficient resources, including appropriate management oversight, to ensure journal vouchers are thoroughly researched, reviewed, and approved prior to their approval and entry into the financial system.

FEMA – FMC 15-12 – Deficiencies Identified over Claims' Case Reserves at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program *(NFR No. FEMA 15-19)*

We selected a total of 130 case reserve balances during the period October 1, 2014 to August 31, 2015 for substantive testwork purposes. We noted the following exceptions:

- In one instance, the insurance company's information technology system improperly calculated the case loss reserve balance. The increased cost of compliance reserves were improperly closed based on the system's limitations to process several transactions in the order in which they occur during the course of one day. The system limitation caused an understatement to the case reserve balance of $15,000 as of February 28, 2015.

- In two instances, the policies and associated claims were cancelled and re-written as new policies with the associated claims and case reserves. At that time the case reserves were not properly closed. The error was identified and a Transaction Record Reporting and Processing System reserve correction change was processed, but was done so incorrectly resulting in the incorrect case reserve balance to remain open as of February 28, 2015. This caused an overstatement to the case reserve balance of $35,000.

- In eight instances, the amount recorded for case reserves in the August 31, 2015 population was not properly updated as additional claim information was obtained, creating an overstatement of $6,870.

Recommendations:
We recommend that FEMA:

- Follow up with the National Flood Insurance Program insurer identified to determine that appropriate corrective action has been implemented to address the exception identified.

- Continue to monitor and address exceptions on the Monthly Loss and Reserves Report and ensure that all open reserves on closed claims are reduced to zero in a timely manner.

- Develop a requirement for National Flood Insurance Program insurers to review case reserve transactions for accuracy prior to submission of the data to the third-party service provider.

FEMA – FMC 15-13 – Lack of Implementation of Complementary User Entity Controls related to the U.S. Department of Health and Human Services Payment Management System *(NFR No. FEMA 15-22)*

As of September 30, 2015, we determined the following required complementary user entity controls (CUECs) identified in the *Description of the U.S. Department of Health and Human Services* (HHS) *Program Support Center*, *Financial Management Portfolio, Payment Management Services* (PMS) *Grants Management System* (HHS PMS SSAE 16 Report), for the period October 1, 2014 through June 30, 2015 had not been identified and tested for effectiveness by FEMA:

- CUEC 3.0 l (pg. 48): HHS awarding agencies are responsible for inputting information to the PMS completely and accurately.

- CUEC 3.02 (pg. 48): Awarding agencies are responsible for providing accurate and complete grant information timely.

- CUEC 7.0 I (pg. 63): Awarding agencies are responsible for reconciling the reports provided from the PMS that show dollar and transaction counts to their records and reporting discrepancies to the PMS as follows:

    - The recipient charging transaction files, which are based on the transactions sent to the PMS via the Federal Financial Report, to the results on the R98D report;

    - The Monthly Synchronization Report (PMS 817) to their general ledger;

    - The charging transaction files received from the PMS to the charging (Statement of Transactions, FMS Form 224) information recorded by the Department of Treasury; and

  - The Summary Reconciliation Report with their general ledger.

- CUEC 7.02 (pg. 63): Awarding agencies are responsible for verifying the reported charges against the Department of Treasury account(s).

Recommendation:
We recommend that FEMA modify the annual review process to include the proper identification and evaluation of the effectiveness of the CUECs implemented at FEMA.

IV. FEDERAL LAW ENFORCEMENT TRAINING CENTERS (FLETC)

FLETC – FMC 15-01 – Lack of Segregation of Duties over Standard Journal Voucher Postings *(NFR No. FLETC 15-01)*

During interim testing over a sample of 45 standard journal vouchers, we identified three instances where the standard journal voucher coversheet did not have a reviewer signature. Additionally, we noted that the same individual prepared and approved the journal voucher within the financial system.

We noted that although the financial system permits the creation and posting of journal vouchers by the same supervisor/Branch Chief, FLETC's policy dictates that a hard copy journal voucher must be reviewed and approved by different individuals. For the exceptions noted above, the hard copy was not reviewed.

Recommendations:
We recommend that FLETC reassess its current procedures for journal vouchers and strengthen its processing control by implementing use of electronic standard journal voucher form with digital signatures by preparers and approvers prior to posting in the financial system. We also recommend a monthly verification of all standard journal voucher transactions recorded in the financial system during the accounting period by a staff accountant to ensure the transactions are substantiated by properly approved/digitally signed electronic standard journal voucher forms.

FLETC – FMC 15-02 – Untimely and Incomplete Submission of Employee Indoctrination Record *(NFR No. FLETC 15-02)*

During interim testing over a sample of 15 new employees, we noted the following:

- One instance in which the employee was hired in October 2014, but the Supervisory Indoctrination Record was not completed until September 2015.

- One instance in which the employee did not sign the Supervisory Indoctrination Record.

Recommendation:
We recommend that the FLETC implement an additional control to ensure all Supervisory Indoctrination Records are returned to the Human Capital Office (HCO) in a timely manner by separately tracking the forms. If one is not received within two weeks of the employee entry on duty, HCO should follow up with

the immediate supervisor. If there is no response, HCO should contact the next level supervisor and continue to follow up until the completed Supervisory Indoctrination Record form is received.

FLETC – FMC 15-03 – Improper Contract Management over Reimbursable Agreements *(NFR No. FLETC 15-04)*

We noted that although FLETC and DHS policy requires an approved agreement, in practice FLETC does not require an approved reimbursable agreement to be in place prior to incurring or billing costs against an agreement. Additionally, FLETC inputs a placeholder reimbursable agreement number into the financial system to allow costs to be billed until a reimbursable agreement is created and signed.

Recommendations:
We recommend that FLETC develop and distribute reimbursable agreements to its Partner Organizations for the upcoming fiscal year based on training estimates on hand during the fourth quarter. These agreements should be executed subject to availability of funds, and then modified to add funding and finalize reimbursable amounts as information/funding becomes available. FLETC should further take a more aggressive stance in obtaining signed agreements back from its Partner Organizations.

FLETC – FMC 15-04 – Accounts Payable Accrual *(NFR No. FLETC 15-05)*

We noted that during FY 2015, FLETC incurred approximately $25 million of operating expenses related to the National Bio and Agro-Defense Facility (NBAF) obligations. We performed an analysis comparing the total expenses related to NBAF obligations against the undelivered order balance for NBAF agreements as of September 30, 2015. As a result of this analysis, we determined that the accrual amount related to NBAF undelivered order balances should have been approximately $25 million; however FLETC accrued approximately $37 million. We also noted FLETC performed a look-back analysis on the FY 2014 accrual when preparing the FY 2015 accrual. Based on the results of the look-back, we noted the accrual was overstated by approximately $10 million in FY 2014.

Recommendation:
We recommend FLETC continue to use its accounts payable accrual methodology and appropriate adjust accrual estimates for known extraordinary, non-routine financial events.

V. UNITED STATES IMMIGRATION AND CUSTOMS ENFORCEMENT (ICE)

ICE – FMC 15-01 – Non-GAAP (Generally Accepted Accounting Principles) Analysis *(NFR No. ICE 15-02)*

Controls were not designed to verify the completeness of ICE's non-GAAP analysis prior to submission to DHS OFM. Specifically, we noted that there was one non-GAAP policy that was not included on the March 31, 2015 ICE non-GAAP analysis. This policy was identified by management as a result of a request from the auditors.

Recommendation:
We recommend that ICE review its policies, procedures and surveys around non-GAAP to ensure completeness in capturing non-compliant processes.

ICE – FMC 15-02 – Apportioned and Unapportioned Balances *(NFR No. ICE 15-03)*

ICE did not fully implement controls to monitor balances as apportioned and unapportioned in the financial statements and to ensure adjustments were identified and recorded timely.

Recommendation:
We recommend the ICE Office of Budget and Program Performance and Office of Financial Management finalize and document the new apportionment process implemented in the third quarter of FY 2015, and include monitoring and escalation procedures to ensure all funds that should be apportioned are apportioned timely.

ICE – FMC 15-03 – Accounts Payable Look-Back Analysis *(NFR No. ICE 15-05)*

Controls were not properly designed to ensure items identified as outliers and anomalies when performing the look-back analysis were contemplated and incorporated into the calculation of the subsequent period's accrual. Specifically, we noted that management identified two large payments in April and May which were related to one-time payments made for services received from the Department of Veterans affairs. ICE conducted further research and determined that these payments were related to IPACs that covered the entire fiscal year; however no adjustment was made to the accrual methodology for the calculation of the future period's accounts payable methodology based on the identification of these payments.

Additionally we noted that management had not identified and tested controls to ensure the completeness of the information included in the system generated report used in the performance of this control.

Recommendation:
We recommend that ICE implement further controls in the process to validate the completeness of the information produced and further document the actions required for anomalies of payments.

ICE – FMC 15-04 – Entity-Level Controls – OGE-450 Form: Confidential Financial Disclosure Report *(NFR No. ICE 15-08)*

Controls were not fully effective to ensure all individuals required to file OGE-450s were transitioned to the new automated system upon implementation. Specifically, out of 45 samples, we noted one instance where the Ethics Office did not include one filer's office during its initial data collection process, which resulted in the individual filing after February 15, 2015.

Policies, procedures and controls were not fully implemented to ensure all OGE-450 forms for new employees were initially filed no later than 30 days. Specifically, out of 45 sampled annual and new entrant OGE-450 filers:

- One new entrant report did not file within 30 days due to administrative error.
- One report was not certified within 60 days due to delay in supervisory review.

Recommendations:
The ICE Ethics Office should continue to commit to provide equal focus on annual and new entrant filers by using the notification process included in the ICE Ethics Office OGE-450 Standard Operating Procedures.

The ICE Ethics Office should also continue to provide reminder notifications in response to delayed supervisory review and escalate delinquent reviewing supervisors to chiefs of staff for assistance as required by the ICE Ethics Office OGE-450 Standard Operating Procedures.

ICE – FMC 15-05 – Entity-Level Controls – Performance Reviews *(NFR No. ICE 15-09)*

Controls were not operating effectively to ensure Performance Appraisal Forms were reviewed and approved. Specifically, in our review of the Performance Appraisal Forms for 15 employees, we identified three instances in which the final Performance Appraisal Forms were not reviewed and approved by the reviewing official.

Recommendations:
ICE should issue communication, via a broadcast message, outlining the performance appraisal review process to all supervisors and managers at the end of every performance cycle as a reminder of the correct steps in the final rating process. In addition, the Office of Human Capital should remind each headquarters Program Office Performance point of contact to emphasize the correct final rating process with their respective supervisors and managers during the final rating process.

ICE – FMC 15-06 – Real Property Management System (RPMS) Information Produced by the Entity *(NFR No. ICE 15-10)*

Due to the RPMS Account Management weaknesses noted in NFR ICE IT-15-03, we were unable to conclude on the operating effectiveness of RPMS GITCs. Management utilizes two reports from this system in the performance of manual controls.

The Rent Bill Verification and Validation relies on the General Services Administration Rent Projections Report from RPMS as a source for the reconciliation. If this report is not complete and accurate, items requiring reconciliation may not be identified.

The leasehold improvement sub-ledger to general ledger reconciliation uses the Leasehold Improvement Report from RPMS as the source document for the leasehold improvement sub-ledger and the source document for recording additions and deletions in the general ledger. If all the information contained in RPMS is not captured and reflected on the system generated report then information presented in the general ledger may not be complete and items requiring reconciliation may not be identified.

Recommendations:
ICE should improve controls for granting access to RPMS users and implement an annual recertification to ensure the operating effectiveness of GITCs. ICE should also assess the completeness of the reports provided from RPMS.

ICE – FMC 15-07 – Undelivered Orders Analysis *(NFR No. ICE 15-14)*

Controls were not fully effective to ensure that there is clear documentation readily available to support the status assigned to obligations on the undelivered orders analysis template. Specifically, we noted a contract that had an expired period of performance and no fiscal year 2015 activity that was assigned a status 1; however, there was no clear and concise documentation available to support the status included in the undelivered orders analysis. Additionally, upon further inquiry it was determined that this contract was currently under Defense Contract Audit Agency audit and per the DHS Component Requirements Guide, in this instance, strong supporting documentation is required.

Recommendation:
ICE should work closely with the programs to ensure proper documentation is available to support open obligation balances.

ICE – FMC 15-08 – Operating Expenses *(NFR No. ICE 15-16)*

Controls were not operating effectively to ensure advances were recorded and liquidated in the proper period. Specifically, we noted one instance in which an advance should have been recorded in previous fiscal years and was incorrectly liquidated in FY 2015 resulting in an overstatement to operating expenses.

Controls were not operating effectively to ensure that prepaid assets were properly recorded in the general ledger. Specifically, we noted one instance in which vehicles that had been purchased but not received were recorded as operating expenses instead of prepaid assets resulting in an overstatement to operating expenses and an understatement to prepaid assets.

Recommendation:
ICE should take steps to ensure that advances are processed correctly and enforce proper procedures for receipt of vehicles in the financial system.

VI. MANAGEMENT DIRECTORATE (MGMT)

MGMT – FMC 15-01 – Statement of Differences *(NFR No. MGMT 15-08)*

Controls were not properly designed and implemented to effectively resolve reconciling items on the statement of differences reconciliation prepared by the service provider. Specifically, we noted a significant number of reconciling items which were aged greater than 60 days.

Recommendation:
MGMT should develop and implement processes to ensure reconciling items related to the statement of differences reconciliation are cleared timely.

MGMT – FMC 15-02 – Entity-Level Controls – Performance Reviews *(NFR No. MGMT 15-10)*

Controls were not operating effectively to ensure Performance Appraisal Forms were reviewed and approved. Specifically, in our review of the Performance Appraisal Forms for 15 employees, we identified one instance in which the initial Performance Work Plan, mid-cycle review, and final Performance Appraisal Review Form were not reviewed and approved by the reviewing official.

Recommendation:
MGMT should develop a process to allow the Office of Human Capital to escalate and enforce existing policies and procedures related to performance reviews.

VII. NATIONAL PROTECTION AND PROGRAMS DIRECTORATE (NPPD)

NPPD – FMC 15-01 – Approval of Personnel Actions *(NFR No. NPPD 15-01)*

NPPD lacked approved policies and procedures to verify that employee data processed for new hires was accurately entered into EmpowHR prior to submission to the National Finance Center.

Recommendation:
The NPPD Operations Branch should implement the policies and procedures for personnel processing once finalized and ensure second level reviews of actions are completed prior to submission to National Finance Center for processing.

NPPD – FMC 15-02 – Time and Attendance *(NFR No. NPPD 15-02)*

NPPD lacked approved policies and procedures requiring:

- Supporting documentation to be maintained evidencing leave approvals processed outside of the WebTA system.
- Monitoring of the individuals listed in WebTA, who have the ability to approve timesheets, to ensure that only authorized individuals have the “approver” role within the system.

Recommendation:
The Operations Branch should finalize the WebTA standard operating procedures.

NPPD – FMC 15-03 – Revenue Accrual *(NFR No. NPPD 15-04)*

The revenue accrual was not designed to accrue for the full amount of revenue related to $1/12^{th}$ billing agreements. We noted that the revenue accrual methodology accrued revenue based on expenses that had been paid related to each project code without additional consideration of revenue that should be accrued to account for the gap between the start of the contract and approval date in the system.

Specifically, we noted that five months of revenue from FY 2014 related to a contract that had a period of service of May 1, 2014 to September 1, 2014 and monthly revenue of $48,000, was billed and recognized in October 2014. We inspected the revenue accrual for this contract to verify whether the revenue was appropriately accrued as of September 30, 2014.We noted that only $134,000 of revenue related to this contract was accrued based on the accrual methodology, which resulted in an overstatement of $106,000 to the revenue balance in FY 2015.

Additionally, we noted there was no formal, documented review of the accrual methodology on an annual basis to ensure that the accrual methodology used is appropriate.

Recommendations:
During FY 2015, Federal Protective Service ran an extra billing cycle at September 30 to ensure that all the appropriate revenue was recorded in the financial statements. We recommend that Federal Protective Service formalize this process to recur annually on September 30. Federal Protective Service should also continue to review and revise processes to build additional controls into the revenue accrual process.

NPPD – FMC 15-04 – Entity-Level Controls – Performance Reviews *(NFR No. NPPD 15-10)*

Controls were not appropriately implemented to ensure the performance review process functioned as designed. Specifically, during our inspection of documentation for the employee review process of one employee, we identified the following:

- The initiation of the Performance Work Plan was not performed timely. The employee's Performance Work Plan was not implemented until six months after the start of the performance review cycle, which exceeds NPPD's 30 day requirement.

- One instance in which the review and approval of the Performance Appraisal Review Form was not evidenced.

Recommendation:
The NPPD Employee and Labor Relations Office (E&LR) must fully comply with performance management mandates to ensure system and process integrity. For compliance purposes during FY 2016, E&LR should conduct quarterly random Employee Performance Plan requests from each sub-component to review and ensure plan maintenance and compliance with DHS and NPPD performance management regulations and guidance. Documentation should be maintained that notes trends and variables in data provided for each quarter.

NPPD – FMC 15-05 –Suspense Reconciliation *(NFR No. NPPD 15-12)*

Controls were not operating effectively to ensure that the reconciling items per the suspense reconciliation were cleared timely. Specifically, we noted that as of September 30, 2015, NPPD had $21.3 million recorded in a suspense Treasury account fund symbol. As a result, we note that there is the maximum potential for $21.3 million of understatement to operating expenses related to these unapplied transactions.

Recommendations:
NPPD should continuously monitor the processing of the IPACs to ensure timely clearance of transactions. NPPD should engage financial managers, as well as those leading the payment management process, to identify why IPACs are not clearing timely and develop procedures moving forward to remedy common root causes. For year-end closing, NPPD should make every effort to process IPACs to remain under the required threshold and not close out all transactions to eliminate the statement of differences.

VIII. OFFICE OF HEALTH AFFAIRS (OHA)

OHA– FMC 15-01 – Operating Expenses *(NFR No. OHA 15-01)*

Controls were not fully effective to ensure that expense transactions were recorded in the general ledger timely. Specifically, we noted one instance in which there was untimely posting of an expense in the general ledger related to an IPAC.

Recommendation:
We recommend that OHA increase coordination with the Dallas Finance Center to ensure timely submission of manual certification forms and posting of IPAC expenses.

IX. OFFICE OF FINANCIAL MANAGEMENT (OFM)

OFM – FMC 15-01 – Non-Compliance with Financial Disclosure Filing Requirements and Ethics Training Requirements *(NFR No. OFM 15-01)*

Controls over the submission and review of OGE-278 and OGE-450 forms were not operating effectively. Specifically, during our testwork over OGE-278 filings, we noted:

- For one of the 25 samples tested, the filer did not submit the financial disclosure form on time in accordance with the OGE filing requirements. Additionally, the form was not submitted within the 30-day grace period.

- For 13 of the 25 samples tested, the final review/certification was untimely.

- For one of the 25 samples selected, DHS was unable to provide a disclosure form.

During our testwork over OGE-450 filings, we noted:

- For one of the 45 samples tested, the filer did not submit the financial disclosure form on time in accordance with the OGE filing requirements. Additionally, the form was not submitted within the 30-day grace period.

- For seven of the 45 samples tested, the final review/certification was untimely.

- For one of the 45 samples selected from the OGE-450 filer population, the filer was improperly categorized as an OGE-450 filer. The individual should have been categorized as an OGE-278 filer.

We also noted that controls over ensuring compliance with the annual ethics training requirement were not operating effectively. Specifically, we noted:

- During testwork over a sample of 70 employees, DHS could not provide evidence that four employees had completed ethics training, three of which were on detail to other agencies during the period under review. Additionally, we identified one employee who was hired in FY 2015, but DHS was unable to provide evidence that the employee received ethics training within 90 days of his or her date of hire.

- While the Designated Agency Ethics Official had established a program to periodically review DHS component ethics office procedures and implementation of the financial disclosure reporting program as required by the Financial Disclosure Reporting Policy, not all components had submitted their implementing instructions to the Designated Agency Ethics Official for review and approval as required under the Financial Disclosure Reporting Policy. As such, the DHS headquarters Ethics Office program reviews were inhibited in assessing compliance with Designated Agency Ethics Official approved procedures.

- During testwork over financial disclosure forms at eight components, we identified findings related to financial disclosure processes at six components (U.S. Coast Guard, Federal Emergency Management Agency, Customs and Border Protection, Transportation Security Administration, Immigrations and Customs Enforcement, and U.S. Secret Service). These findings included untimely submission and review, and lack of understanding of filing requirements.

Recommendations:
The Ethics Office should provide timely notifications to employees to ensure they are aware of their obligations to meet required filing deadlines and training requirements. To support these efforts, the Ethics Office should continue to track and notify individual filers of due dates, notify them if and when their reports are overdue, and notify component management of delinquencies so that appropriate measures may be taken to compel compliance. The Ethics Office should continue to conduct ethics training each pay period for new employees and conduct ethics training sessions in person each calendar year, provide on-line training examples and review for the acquisition workforce ethics training and provide ethics training to all financial disclosure report filers, and other filers upon request. Additionally, the Ethics Office should work with component Ethics Offices to ensure they establish and implement policies and procedures over their financial disclosure reporting program as required by Departmental policy.

OFM – FMC 15-02 – Departmental Standards of Conduct *(NFR No. OFM 15-02)*

During our testwork over entity-level controls, we noted that DHS had not issued a Supplemental Standards of Conduct. Although not required, the Department, with the concurrence of the Office of Government Ethics, has determined the need for and developed a Supplemental Standards of Ethical Conduct for Employees of the Department of Homeland Security, which was published as a proposed rule in the Federal Register for public comment on October 12, 2011. The proposed regulations would supplement the Office of Government Ethics Standards of Ethical Conduct for Employees of the Executive Branch, and would, among other things, set forth employee restrictions on the purchase of certain Government-owned property, require employees to report allegations of waste, fraud and abuse, require employees to seek prior approval for certain outside employment and activities, and designate components within DHS as a separate agency for purposes of determining whether the donor of a gift is a prohibited source. As of September 30, 2015, the Supplemental Standards of Conduct had completed Departmental review and was awaiting approval from the Secretary.

Recommendation:
We recommend that the Designated Agency Ethics Official continue to work towards publishing a final rule.

OFM – FMC 15-03 – Intra-departmental Reconciliation of Unfilled Customer Order and Undelivered Order Balances *(NFR No. OFM 15-04)*

We noted that in some instances, components were not providing timely and complete templates to MGMT for use in the undelivered orders reconciliation.

Controls were not operating effectively to ensure all DHS components report accurate intra-departmental unfilled customer orders and undelivered order balances timely to assist with the reconciliation and resolution of reconciling differences.

Recommendation:
OFM should continue to work with MGMT to improve components' timely and complete responses for the undelivered orders reconciliation.

OFM – FMC 15-04 – Evaluation of Potential Subsequent Events Related to Actuarially Derived Estimates *(NFR No. OFM 15-05)*

DHS financial management had not implemented a process to identify, evaluate, and document events subsequent to year-end, but prior to issuance of the financial report, that may impact their actuarially derived estimates. Specifically, DHS did not have a sound process in place to identify and evaluate release of updated mortality information from the Society of Actuaries that could affect mortality assumptions used in the USSS pension liability valuation.

Recommendation:
OFM should coordinate with its contracted actuary to obtain updated actuarial information within ten business days of their review.

OFM – FMC 15-05 – Review of the Closing Package Financial Statements and Notes *(NFR No. OFM 15-06)*

DHS financial management did not establish sufficient internal controls to ensure that the amounts presented in the closing package financial statements and related notes were accurately presented per the instructions contained in Treasury Financial Manual Chapter 4700. We noted that in module GF002A – Audited Financial Statement Report for the Statement of Changes in Net position, Net Cost of Operations was reported as $228, resulting in OFM changing the amount to ($228). Furthermore, we noted inconsistent rounding throughout the preparation of the financial statements and related notes.

Additionally, we identified several errors related to the Governmentwide Financial Report System financial reporting note reports. We noted errors in line items in Note 05 – I*nventories and Related Property* and Note 19 – *Commitments* which were subsequently corrected by DHS financial management. We also noted immaterial errors in Note 06 – *Property, Plant, and Equipment* that were not corrected by management.

Recommendation:
We recommend that DHS OFM improve controls over financial reporting for the closing package financial statements to ensure that accompanying notes are accurately prepared in accordance with instructions contained in Treasury Financial Manual Chapter 4700.

X. SCIENCE & TECHNOLOGY DIRECTORATE (S&T)

S&T– FMC 15-01 – IPAC Expense Approval *(NFR No. S&T 15-02)*

Controls were not fully implemented to ensure that the S&T contracting officer representatives' post-review of IPACs is completed timely. Per the S&T IPAC Processing Finance and Budget Division Financial Manual, IPACs not reviewed and approved by the contracting officer representative within 30 days are automatically approved by moving to a "Complete" status in the invoice approval module, Webview.

Recommendations:
We recommend that S&T:

- Provide training to program managers, contracting officer representatives, and financial analysts to reiterate the importance of reviewing IPACs.
- Produce statistics reflecting which offices have not reviewed IPACs.
- Review and revise the S&T IPAC Processing Finance and Budget Division Financial Manual to reflect the change in procedures.

S&T– FMC 15-02 –Impairment Analysis *(NFR No. S&T 15-04)*

Controls were not designed to record adjustment to PP&E values in the general ledger for assets identified as inactive. Specifically, we noted that S&T had at least one inactive building that was not fully depreciated and the net book value in the financial statements had not been adjusted to zero.

Recommendations:
We recommend that S&T Finance and Budget Division develop policies and procedures to:

- Verify the net book value of buildings identified as inactive.
- Coordinate with the Administration and Support Division to identify and report property that meets the accounting definition of impaired property during quarterly reporting.
- Adjust net book value to zero if an inactive building meets the accounting definition of impaired property and still has remaining net book value.

S&T– FMC 15-03 – Accounting for National Bio and Agro-Defense Facility Land Donation *(NFR No. S&T 15-08)*

Controls were not operating effectively to ensure that the 45.6 acres of land donated by the State of Kansas for the NBAF was appropriately recorded at fair value. We note that management proposed an on-top adjustment to appropriately record these balances.

Recommendation:
We noted that while S&T obtained an estimate of the value of the donated land and posted a prior period adjustment to record the estimated value of the donated land, we recommend they reinforce existing policies and procedures to ensure land is properly valued and recorded.

S&T– FMC 15-04 – Unfilled Customer Orders *(NFR No. S&T 15-10)*

Controls were not operating effectively to ensure that unfilled customer orders were recorded in the general ledger properly. Specifically, we noted one instance in which an unfilled customer order was recorded in the general ledger in excess of the agreement. This resulted in an overstatement of the unfilled customer order balance.

Recommendation:
S&T should continue to coordinate with its accounting service provider (ICE) to verify that reimbursable agreements are created in accordance with the related agreements.

XI. TRANSPORTATION SECURITY ADMINISTRATION (TSA)

TSA – FMC 15-01 – Ineffective Controls over the Time and Attendance Process *(NFR No. TSA 15-01)*

During our FY 2015 site visits to four airports, we noted that controls over time and attendance were not fully effective. Specifically, we noted two of 20 instances in which the employee used accrued annual leave prior to supervisory approval.

Recommendations:
We recommend that TSA:

- Continue to provide guidance and updated job aids and refresher training on governing policies for leave and overtime approvals and procedures for the use of WebTA.

- Continue to conduct bi-monthly meetings with the Payroll user community to gather concerns and issues and to provide training focusing awareness on maintaining effective controls over time and attendance processes and proper time and attendance recordation.

- Remind supervisors to adhere to local guidelines established for the minimum time frame to submit and approve leave requests.

TSA – FMC 15-02 – Inadequate Approval of Personnel Actions *(NFR No. TSA 15-02)*

Controls over the review and approval of personnel actions were not effective. Specifically, we reviewed 25 personnel actions related to one Transportation Officer Performance System award, and noted that 10 of them did not have evidence of TSA Office of Human Capital approval.

Recommendation:
TSA should develop and implement a quality assurance process that documents the review and approval of the group awards. Written notification should be given to the service provider indicating the results of the review and the authorization to proceed with the processing of the transactions associated with the Transportation Officer Performance System payout.

TSA – FMC 15-03 – Insufficient Review of Personnel Actions *(NFR No. TSA 15-03)*

Controls over the review of completed personnel actions were not effective. Specifically, we noted one pay period out of five in which all personnel actions were not subject to a completeness and accuracy review, subsequent to being processed at the National Finance Center. One “Nature of Action” code was inadvertently not included in the population subject to sampling, and the resulting sample size did not meet the established threshold.

Recommendations:
We recommend that TSA:

- Provide oversight to ensure that the service provider follows the agreed upon methodology as outlined in contract as part of the Performance Evaluation Plan. Metric 2.1. states that transactions are processed according to Federal Regulations and Guidelines and calls for a compliance sample size of two percent for each personnel, payroll, benefits areas of nature of action codes to measure the average timeliness and compliance (i.e., accuracy) of transactions.

- Monitor the service provider’s quality assurance review of personnel actions to ensure it is operating effectively.

TSA – FMC 15-04 – Ineffective Controls over Depreciation of Property, Plant, and Equipment *(NFR No. TSA 15-04)*

Controls over the depreciation of capitalized assets were not effective. During our testwork over Transportation Security Equipment additions, we noted depreciation expense for capitalized assets was not recorded in a timely manner. Specifically, we noted the ‘depreciation flag’ for seven of 25 assets was not selected in the Core Accounting System Fixed Asset module (FA) when the asset was placed in service.

In each of these instances, the depreciation flag was set two or more months after the asset was placed in service and journal entries were later recorded to correctly state the depreciation expense.

Recommendations:
We recommend that TSA:

- Perform a monthly test of the depreciation flag as presented in the TSA End of Month FA Report to determine if there are any assets with a date placed in service recorded in the Sunflower Asset Management System. If any assets are identified with a recorded date placed in service where the flag has not yet been updated, TSA should start depreciation on these assets to ensure timely and accurate recording of depreciation. Additionally, TSA should provide the finance center with the list of assets that require depreciation flag updates.

- Work with the finance center to update the desk guide for end of month procedures to add the process to turn the depreciation flag on within FA during the month the asset is placed into service.

TSA – FMC 15-05 – Ineffective Controls over Property, Plant, and Equipment Retirements *(NFR No. TSA 15-05)*

Controls over the retirement of capitalized assets were not effective. During our testwork over Transportation Security Equipment retirements, we noted that retired assets were not removed from the Core Accounting System FA module in a timely manner. Specifically, we noted that two of 25 assets were removed from FA more than 30 days after the retirement date in the property management system.

Both assets identified were fully depreciated prior to being taken out of service.

Recommendation:
TSA should establish policies and procedures to ensure property management staff follow up on outstanding retirement documentation in order to retire assets in a timely manner.

TSA – FMC 15-06 – Ineffective Controls over the Completeness and Accuracy of the Accounts Payable Look-Back Analysis *(NFR No. TSA 15-06)*

Controls were not designed and implemented to ensure the completeness and accuracy of the subsequent disbursements listing used to validate the year-end accounts payable accrual.

TSA's Financial Management Analysis Branch identified that the look-back for the Other Transactional Agreements related to non American Reinvestment and Recovery Act accrual category utilized inaccurate data. A specific transaction that was disbursed in the prior year was incorrectly included in the subsequent disbursements population and, after testing, was erroneously included in the final analysis used to compare the prior year estimate with the actual result.

Recommendation:
TSA should further implement policies and procedures to ensure the completeness and accuracy of all relevant data fields of the disbursement reports used in the accounts payable accrual look-back analysis.

TSA – FMC 15-07 – Ineffective Controls over the Review of IPACs *(NFR No. TSA 15-09)*

Controls were not operating effectively to document review of all categories of expenses prior to payment. Specifically, one of the 15 expense samples we tested was an IPAC payment to the DHS working capital fund, but did not have evidence that the invoice was reviewed prior to payment.

Recommendation:
TSA should create and execute an internal standard operating procedure to ensure working capital fund transactions are recorded, reviewed and documented properly and in a timely manner.

TSA – FMC 15-08 – Control Deficiencies related to OGE-278 and OGE-450 Forms *(NFR No. TSA 15-11)*

Controls over the submission and review of OGE-278 and OGE-450 forms were not operating effectively. Specifically, during our testwork over OGE-278 filings, we noted:

- One instance in which an individual was granted an extension to file by July 5, 2015, and subsequently filed one day late on July 6, 2015.

During our testwork over OGE-450 filings, we noted:

- Two instances in which the filer submitted the form timely prior to the February 15, 2015, submission deadline. However, the Office of Chief Counsel misplaced the forms and subsequently located and reviewed them on July 7, 2015 and August 4, 2015, respectively.

- One instance in which an incumbent filer did not submit the form prior to the February 15, 2015, submission deadline and did not receive a timely notification to file due to an administrative error. The error was discovered by TSA on August 3, 2015, and a notification to file was sent to the filer, who submitted the form on the same day.

- Sixteen instances in which filers submitted the required form after the February 15, 2015, deadline for OGE-450 filers. TSA sent late notices to these filers on June 29, 2015, and August 3, 2015.

Recommendation:
TSA should update notifications to filers to send additional reminders to filers after the initial notification, remind filers of the proper e-mail address for submissions, and specify the filer's responsibility to inform the Office of Chief Counsel Ethics and General Legal Services division of any changes to their contact information (e.g., email address).

TSA – FMC 15-09 – Ineffective Controls over the Review of the Accounts Receivable Accrual *(NFR No. TSA 15-12)*

Controls over the review of the accounts receivable accrual were not effective. Specifically, we noted the following errors in the quarterly accrual calculation:

- As of March 31, 2015, the accrual did not include the amount related to carrier fees.

- As of June 30, 2015, the accrual did not use the individual percentage rate average for air carriers with variances greater than $500,000 for passenger fees.

Recommendations:
We recommend that TSA Financial Management Division Accounting Branch:

- Develop an accounts receivable accrual review checklist for DHS Treasury Information Executive Repository (DHSTIER) to ensure that the calculation formulas for the accrual amount include all necessary components, including the residual air carrier fee accrual amount and individual percentage rate averages for the air carriers with a greater than $500,000 variance. The checklist should include the DHSTIER adjustment preparer and the reviewer's approval.

- Perform a reasonableness check on a quarterly basis to ensure the accounts receivable accrual amount is not materially under or overstated.

- Update the current internal standard operating procedure for the accounts receivable accrual to include the DHSTIER adjustment checklist and the quarterly reasonableness check.

TSA – FMC 15-10 – Ineffective Controls over FECA Claims *(NFR No. TSA 15-13)*

During our testwork over FECA claims filed in FY 2015, we noted four instances in which the CA-1 form was not submitted to the Department of Labor within the 10 business day deadline, as established in the CA-1 form instructions.

Additionally, during our testwork over the review of the FECA Department of Labor chargeback report, we noted one additional instance in which a CA-1 form filed in FY 2015 was not signed by the employee. While we note that this does not indicate a control failure of the Department of Labor chargeback review, it does contribute to non-compliance with FECA laws and regulations.

Recommendations:
We recommend that TSA:

- Enforce policies and procedures for compliance with the Federal Employees' Compensation Act.

- Continue to conduct monthly training sessions with the Airport Workers Compensation Coordinators to provide focused training on FECA topics, including requirements for completion of case files prior to submission to the Department of Labor.

TSA – FMC 15-11 – Ineffective Controls over the Funded Accrued Payroll Reconciliation *(NFR No. TSA 15-14)*

Controls over the funded accrued payroll reconciliation were not effective. Specifically, in preparing the September reconciliation, payroll personnel erroneously populated $2,130 in the FY 2015 payroll accrual as budget year 2014 activity. The prior budget year appropriations are excluded from comparison between actual payroll expense and accrued payroll expense, thus the FY 2015 payroll payments were inappropriately excluded from the analysis.

Recommendation:
TSA should implement further procedures to ensure the completeness and accuracy of all relevant data fields of the funded payroll accrual reconciliation.

XII. UNITED STATES COAST GUARD (USCG)

USCG – FMC 15-01 – Financial Disclosure Reports *(NFR No. USCG 15-02)*

Controls over the CFDR process were not fully effective during the current year. Specifically, of the 35 samples tested, we noted:

- One instance in which the OGE-450 was completed subsequent to the February 15 filing deadline without evidence of a filing extension.
- Four instances in which the OGE-450 was not reviewed timely (within 60 days of receipt of the signed form from the filer).
- One instance in which the front section of the OGE-450 was not fully completed; and no evidence was available to support timely follow up by the reviewer to confirm the filer's intended response.

Recommendations:
We recommend that USCG notify personnel involved in the OGE-450 review process of training relating to the CFDR program that is available through the Office of Government Ethics MAX.GOV website. Office of Government Ethics provides ongoing training through live, web-based demonstrations and discussions that assist the CFDR program coordinators and reviewing officials to more fully understand their responsibilities. Additionally, USCG ethics officials should continue to notify CFDR program coordinators of their program responsibilities and remain available to answer any CFDR program responsibilities coordinators have.

USCG – FMC 15-02 – Operating Expense Process *(NFR No. USCG 15-03)*

Controls over the operating expense process were not designed and/or operating effectively. Specifically we noted that USCG:

- Lacked control procedures to ensure goods and services associated with intra-governmental payments were received. USCG Finance Center (FINCEN) personnel, accounting for IPAC transactions reported from Treasury, relied on vendor-provided information to assign the accounting line to the transaction without verifying propriety of the charge. USCG personnel based accounting line distribution on the document information referenced on the face of the IPAC transmittal entered by the vendor. They performed a check to ensure that posting the transaction did not exceed available funding on that document. USCG policy and procedures prescribe this treatment for IPAC redistribution. We noted similar over-reliance on vendor-provided information associated with processing military cross-disbursing, Foreign Affairs Disbursing Office and Public Health Services payments.
- Control procedures were not operating effectively to ensure system errors related to recording of expense transactions were timely corrected for financial reporting as of June 30, 2015. Specifically, we noted one instance in which USCG incorrectly processed a transaction to record a receipt of services on June 1, 2015 and did not fully correct the error until subsequent to June 30, 2015 reporting.

- Controls within the Asset Material Management Information System were not fully effective to ensure accurate recordation of expenses for labor hours. Specifically, we noted six out of 21 instances in which expenses were recorded in excess of supporting invoices due to system limitations/rounding of labor hours.

- Policies and procedures related to approval of payments were not sufficiently and consistently documented. Specifically, the USCG FINCEN Commercial Payables Branch, Commercial Payments Section *Contracts Desk Guide* noted that payments under $2,500 are to be automatically routed for payment without Authorizing Certifying Official approval, whereas the USCG FINCEN Commercial Payables Branch, Commercial Payments Section *Standard Operating Procedures* noted that one Authorizing Certifying Official level of review is required.

- Lacked controls to ensure the proper recording of costs of goods sold. Specifically, we noted USCG recorded cutter fuel as inventory (SGL 1521) rather than operating materials and supplies (SGL 1511) and then recorded an expense to cost of goods sold (SGL 6500) rather than other expenses not requiring budgetary resources (SGL 6790).

Recommendations:
We recommend that USCG:

- Review the accounting for IPACs as well as military cross-disbursing, Foreign Affairs Disbursing Office and Public Health Services processes to determine where controls can be implemented to ensure USCG receives the goods and services associated with intra-governmental payments.

- Investigate underlying causes of system issues and implement corrective actions to mitigate risks.

- Update standard operating procedures to ensure consistency.

- Continue to work toward full transition of cutter fuel from the supply fund to operating expense.

USCG – FMC 15-03 – New Hire Ethics Requirements *(NFR No. USCG 15-04)*

Controls over the new hire ethics training were not operating effectively. Specifically, we noted seven out of 25 instances in which the ethics training was not completed within the first 90 days of hire date.

Recommendation:
USCG should continue to follow up with new hires to ensure that they complete their initial ethics training.

USCG – FMC 15-04 – Preparation of U.S. Government Accountability Office (GAO) Financial Audit Manual (FAM) 2010 Checklist *(NFR No. USCG 15-05)*

Control procedures were not properly designed and implemented for FY 2015 to ensure proper preparation of the GAO FAM 2010 Checklist. We noted based on current operations and processes, USCG's response of "Y", "N", or "N/A" was not correct and USCG comments were not consistent to properly explain responses. Specifically, we noted:

- USCG answered "Y" to recording donated items at fair value at the time of donation; however, per USCG policies, donated items are valued at historical cost or the current moving-average price. Additionally, USCG does not value excess, obsolete, or unserviceable operating materials and supplies at net realizable value. Thus, comments regarding the calculation of gains/losses associated with excess, obsolete, or unserviceable items were not consistently applied in the checklist responses based on operations.

- As remediation of policies and control process associated with general PP&E continued throughout the current fiscal year, the referenced policies in the checklist were not consistent with current operations.

Recommendation:
USCG should continue to refine the implementation of the GAO FAM 2010 Checklist and Non-GAAP Analysis Standard Operating Procedure and ensure the roles and responsibilities are executed properly in the preparation of the GAO FAM 2010 Checklist.

USCG – FMC 15-05 – Fund Balance with Treasury *(NFR No. USCG 15-06)*

USCG lacked policies and controls to ensure that reconciling items identified in the fund balance with Treasury reconciliation process had been evaluated for material financial statement impact prior to submission of financial reporting information to the Department. USCG's fund balance with Treasury account statement reconciliation (cited to support adjustments included in the financial data) was completed subsequent to the submission of that financial data, including those adjustments, to the Department. The June 2015 Government Wide Accounting (GWA) reconciliation was approved on July 23, 2015; the final June 2015 DHSTIER file was submitted to DHS including 'cash' adjustments on July 13, 2015. We noted reconciling items associated for which explanations and support accompanying the reconciliation did not differentiate between legitimate timing differences and error/exception-type differences precluding a reviewer from assessing the financial statement impact of each category.

Military cross-disbursing and Foreign Affairs Disbursing Office transactions reported on the GWA/Central Accounting Reporting System statement comprised a portion of the reconciling items and adjustments recorded to each appropriated Treasury fund symbol to bring fund balance with Treasury to the amounts reported by Treasury. The Treasury statement provided a level of support for the transactions reported to Treasury by the other agency, but lacked independent verification by USCG of the validity of the charge prior to recording against appropriated funds. For the months October 2014 through June 2015, differences associated with military cross-disbursing and Foreign Affairs Disbursing Office averaged $5 million per month in total.

Recommendation:
USCG should refine fund balance with Treasury reconciliation procedures and controls to ensure reconciling items are properly evaluated and resolved and/or explained.

USCG – FMC 15-06 –Entity-Level Controls *(NFR No. USCG 15-07)*

Due to continuing remediation activities throughout FY 2015, USCG was unable to perform a full risk assessment over all of its business processes:

- Certain control weaknesses remained uncorrected as a number of prior year audit findings remained open.

- There were numerous risks and control objectives that did not have adequate control activities in place to either prevent or detect instances of material misstatement. As such, USCG was not able to perform a sufficient enterprise-wide full monitoring evaluation over all key control activities in FY 2015.

Controls over the hiring procedures for military employees were not operating effectively. Specifically, we noted 10 out of 20 instances in which the employee's Accession Checklist was not properly retained in accordance with documented policies and procedures.

Controls over the review of employee performance evaluations were not operating effectively. Specifically we noted the following:

- Twelve out of 15 civilian employees for which the initial performance plan was not reviewed by the employee and management timely.

- Three out of 15 instances in which the military employee's initial performance plan was not reviewed by the employee and management timely.

Controls over timely communication with regulatory authorities were not operating effectively. Specifically, we noted one out of 25 instances in which the inquiry response was not provided by the requested deadline.

Recommendations:
We recommend that USCG:

- Continue to perform its annual risk assessment as part of its internal controls assessment cycle.

- Strengthen controls and coordination between the USCG's Pay and Personnel Center and Servicing Personnel Offices to ensure Accession Checklists are properly retained.

- Reinforce existing policies and procedures over timely review of performance plans.

- Aggressively monitor the drafting and clearance of inquiries from regulatory authorities.

USCG – FMC 15-07 – Property, Plant, and Equipment Site Visit Observations *(NFR No. USCG 15-09)*

USCG's personal property asset count control was not operating effectively to ensure the completeness, existence, and accuracy of personal property assets. As of interim testwork, we noted the following:

- The USCG inventory procedures did not require aircraft or vessel upgrades to be inventoried; however, upgrades were entered into FA as separate asset records with their own associated costs.

- One instance in which the remnants of a destroyed aircraft was incorrectly recorded as an operational asset.

- One instance in which an asset currently not in use was incorrectly recorded as a general purpose asset.

- Inconsistencies were noted across units in following the USCG inventory procedures to inventory property by all five asset identifiers: description, tag number, model number, serial number and detailed location. Specifically, in performing site visit testwork, we noted:

    - Inconsistencies in recordation of serial number among small boats (one included the country-code prefix in the serial number, whereas another did not),

    - Inconsistencies in recordation of aircraft identification number among the HC-130H, Dolphin, Jayhawk, and HC144A aircraft classes (several were inventoried and recorded based on the tag number visible on the airframe, whereas several were inventoried and recorded based on the serial number noted on the plaque within the aircraft),

    - Inconsistencies in inventory process for the C27 aircraft class (count teams inventoried these aircraft based solely on tag number, as the aircraft identification number recorded in the system of record is the legacy Air Force serial number which is documented in a transfer memo for this asset class).

Control procedures over USCG's real property were not fully designed and implemented to ensure the completeness, existence, and accuracy of real property assets. As of interim testwork, we noted:

- Policies and control procedures related to the real property asset count process, including the count process for linear, utility, and remote assets, continued to be under remediation through September 30, 2015.

- One instance, while performing site visits, in which a light was not timely inspected or serviced.

Controls over the USCG personal and real property physical asset count were not operating effectively. We noted discrepancies between the asset record details per the population/system of record, and the assets physically inspected onsite. Specifically, we noted the following:

- Fifteen assets were not physically tagged.

- Discrepancies in the tag number for two asset records.

- Discrepancy in the minor classification for one asset record.

- Discrepancies in the serial number (or equivalent) for 13 asset records.

- Discrepancy in the description for one asset record.

Recommendation:
USCG should continue to develop and implement procedures and controls to ensure the effective reporting and accounting of property assets and associated inventories.

USCG – FMC 15-08 – Heritage Assets and Stewardship Property *(NFR No. USCG 15-15)*

Policies and control procedures over the review of all potential heritage personal property assets were not fully designed and implemented to ensure that all assets meeting criterion per SFFAS No. 29 were properly classified. As of interim audit testwork, policies and control procedures to document the determination of personal property assets as heritage were not yet disseminated.

Control procedures were not fully designed and implemented over the evaluation of real property heritage asset classification to ensure complete and accurate presentation of the heritage asset footnote. As of interim testwork, interim policies were developed, however, implementation of control procedures continued to be in remediation. Specifically we noted:

- Two instances out of 46 samples in which asset activity reported in the footnote was not sufficiently supported (i.e., fully vetted by the heritage asset review board, as required) as of June 30, 2015.

- One instance out of 46 samples in which an asset was incorrectly classified as a multi-use heritage asset and the subsequent correction to reclassify the asset to non-collection type heritage was not sufficiently documented.

- One instance out of 46 samples in which duplicate asset records were removed from the footnote due to real property remediation efforts.

As of final testwork, we noted 14 out of 14 samples in which asset records were removed from the footnote due to real property remediation efforts.

Recommendation:
USCG should monitor newly developed procedures to ensure controls are effective and strengthen controls over real property to ensure heritage assets are properly classified in a timely manner and are correctly identified as heritage or multi-use heritage.

USCG – FMC 15-09 – Accounts Receivable *(NFR No. USCG 15-18)*

Controls over the annual review of allowance for doubtful accounts were not appropriately designed to ensure allowance percentages are accurate. Specifically, USCG had not defined the precision to ensure the review was performed at a level that would detect a material misstatement. Additionally, the review of changes in collection rates and evaluation of fluctuations was not sufficiently evidenced.

Controls were not operating effectively to ensure all direct and indirect oil spill-related costs were reviewed prior to the billing of responsible parties. Specifically, we noted:

- One instance out of eight in which the reviewed expenditure inquiry did not contain the full costs on the invoice.

- One instance out of eight in which supporting documentation was not available for all expenditures billed on the invoice.

Controls were not designed and implemented to ensure accurate aging of billed accounts receivable. Specifically, we noted six instances out of 169 instances in which the aging bucket did not represent the actual days aged from the invoice date.

Policies and procedures over the recording of unbilled and billed allowance for doubtful accounts were not developed to ensure consistency of application to properly reflect accounts receivable balances that were expected to be uncollectible. Specifically, an allowance was not recorded for a receivable in the amount of $173 million for which there was not a reasonable expectation of payment.

Recommendation:
We recommend that USCG refine standard operating procedures, design and implement controls, and conduct training to ensure proper recording and of accounts receivable and allowance for doubtful accounts.

USCG – FMC 15-10 – Civilian and Military Payroll *(NFR No. USCG 15-19)*

Control procedures over the timesheet review and approval for civilian payroll were not operating effectively. Specifically, we noted:

- One instance out of 45 samples in which documentation to support the approval of overtime was not provided.
- One instance out of 45 samples in which overtime was taken prior to approval.
- Six instances out of 45 samples in which leave was taken prior to approval.

Control procedures over accessions of military personnel actions were not operating effectively. Specifically, we noted one instance out of 30 samples in which supporting documentation was not available to evidence an accession.

Recommendations:
USCG should continue to issue annual reminders to supervisors regarding the requirement for appropriate approvals of leave, premium pay, and time and attendance records in support of all activity within the time and attendance process. The USCG should also continue to require annual WebTA training for supervisors. The Office of Civilian Human Resources (OCHR) should continue to work to incorporate timecard reviews into Force Readiness Command’s Finance and Administration inspection team capabilities in order to improve unit level knowledge of recordkeeping requirements. The OCHR should continue monitoring the leave and overtime areas to identify trends and problem areas and work with the management of those organization units where issues exist to implement changes to address any deficiencies or weaknesses identified.

USCG should continue to issue annual reminders to Training Center Cape May regarding the requirement for appropriate documentation of accession documents. The USCG should continue to work to incorporate appropriate reviews into recordkeeping requirements. The USCG should continue monitoring accession document processing to identify trends and problem areas. The USCG should work with the Training Center Cape May to implement changes to address any deficiencies or weaknesses identified.

USCG – FMC 15-11 – Accounts Payable Accrual *(NFR No. USCG 15-21)*

Controls over the accounts payable accrual were not operating effectively. Specifically, USCG personnel used inappropriate evidence to support receipt of goods and services for 22 of 159 sampled transactions selected from their retrospective review of the prior year accounts payable estimate. No associated substantive errors were identified when additional support was obtained for those sample items. USCG personnel also made an error in one accrual decision out of the sample of 159 based on the date of services provided. This error was not identified in the two levels of review documented on the associated test package. The incorrect accrual decision for that item resulted in an immaterial extrapolated error of approximately $217,000.

Recommendations:
USCG should continue to evaluate and validate its policies and procedures to ensure supporting documentation used for its accounts payable accrual process complies with established guidelines. In addition, USCG should continue to make recommendations and provide updates to the Documentation Matrix utilized in the accounts payable accrual process when documentation is discovered that would comply with the validation of when goods and or services are received by USCG personnel. Where applicable, the USCG should continue to utilize the "Memo to File" in support of providing dates relative to the transactions being tested to determine the impact on the accrual estimate.

USCG – FMC 15-12 – Preparation of Non-GAAP Analysis *(NFR No. USCG 15-25)*

USCG's non-GAAP analysis was not operating effectively. Specifically we noted the analysis excluded a full year quantitative assessment of materiality of each item identified in order to properly determine the impact to the year-end financial statements and record adjustments if necessary. In USCG's second FY 2015 analysis submission, management quantified the impact of many non-GAAP policies as of an interim date or as of a date prior to FY 2015 but did not reassess or project the impact as of September 30, 2015.

Recommendations:
USCG should develop and implement quantitative assessment procedures to more precisely define the financial statement impact of the non-GAAP policies and procedures for all identified areas. USCG should also further develop policy and procedures to track all non-GAAP accounting policies to include analysis to determine the full-year quantitative assessment amount.

USCG – FMC 15-13 – Financial Reporting Process *(NFR No. USCG 15-26)*

Controls over the preparation of the USCG Net Cost to Budget Reconciliation manual footnote were not properly designed and implemented. Specifically, we noted:

- Due to posting logic issues within Core Accounting System, purchases of capitalized property and inventory were not properly recorded to SGLs 8801, 8802 and 8803. As a result, USCG utilized analytical procedures rather than the appropriate transactional level detail to support Line 15, Resources that finance the acquisition of assets of the Net Cost to Budget Reconciliation. Additionally, without proper controls over PP&E, USCG could not assure reliability of Line 15.

Recommendations:
USCG should continue using manual analytical procedures until posting logic functionality is corrected or the new financial system is implemented. USCG should review the expended obligations to proprietary costs and capitalized costs analytic to determine if a reconciliation can be implemented to identify the actual current year activity to address this line item of the Net Cost to Budget Reconciliation.

XIII. UNITED STATES CITIZENSHIP AND IMMIGRATION SERVICES (USCIS)

USCIS – FMC 15-01 – Deficiencies in Monitoring and Recording Employee Completion of the Annual Ethics and Integrity Training *(NFR No. USCIS 15-01)*

We selected a random sample of 45 USCIS employees required to complete the annual ethics and integrity training course, due on December 31, 2014, and found that USCIS was unable to provide documentation to support, either through LearningEDGE (USCIS's online training portal), transcripts or other relevant evidence (e.g. training sign-in sheets), that nine of the employees had completed the required annual training in a timely manner. Additionally, for one of those nine employees, USCIS was unable to provide support that the employee completed the training due in the prior year as well.

Recommendations:
We recommend that USCIS:

- Implement proper policies and procedures to ensure required trainings, including those delivered outside LearningEdge, are documented and tracked appropriately for all USCIS employees.

- Conduct a regular review of LearningEdge records and follow-up with employees who have not yet completed the training prior to the year-end due date.

USCIS – FMC 15-02 – Non-Compliance with the Prompt Payment Act *(NFR No. USCIS 15-02)*

Based on our testwork performed over a sample of 58 vendor payments made during FY 2015, we noted one instance of non-compliance with the Prompt Payment Act in which the interest payment was calculated using an incorrect acceptance date of May 31, 2015, resulting in a due date of June 30, 2015. We determined the services were rendered on April 30, 2015 and the invoice was accepted on May 18, 2015. We determined, based on the supporting documentation, the prompt pay interest should have been calculated based on an accepted date of May 18, 2015 and due date of June 17, 2015. As a result, USCIS understated the amount of interest paid to the vendor by $596.35.

Recommendations:
We recommend that USCIS:

- Develop a post payment review process to identify acceptance date errors and develop a method to determine if interest penalties are calculated correctly. If errors are detected, develop a process to pay the additional interest penalties to the vendor.

- Additionally, USCIS should provide additional training to originating offices on receiving and acceptance and payment processing procedures.

USCIS – FMC 15-03 – Inaccurate and Unsupported Data in the CLAIMS 3, CLAIMS 4 and MFAS Systems *(NFR No. USCIS 15-03)*

We conducted testwork over the FY 2015 third quarter list to floor audit and noted the following:

- For two of the 540 samples, we reviewed the physical application and determined two applications were adjudicated as of May 20, 2015, however, USCIS's sampling results included a pending status as of May 20, 2015.

- For 48 of the 540 samples, USCIS was unable to provide a physical application to support the applications' status. We note it is USCIS's policy to treat all unsupported samples as "not pending." As these applications were unsupported, we were unable to conclude whether the status determined by USCIS is appropriate.

- For two of the 540 samples, the fee per the sample did not agree to the fee per the historic fee table, based on the form type and receipt date. USCIS was unable to provide support for the fee per the sample.

- Eighteen of the 540 samples were listed as pending in the application tracking system, however, we determined that these samples were not pending based on review of the physical application. Of these samples, USCIS identified 16 of them to be not pending. This indicates that the information in the application tracking systems, CLAIMS 3, CLAIMS 4, and MFAS, was not reliable for financial reporting purposes and that there were deficiencies in the internal controls that govern the information in these systems, resulting in the need for the deferred revenue estimation methodology.

- The deferred revenue quarterly sampling and verification process identified discrepancies in the status of applications where errors between the system query results and the hard copy application exist; however, all identified errors were corrected within the systems. Although the faulty data was included in the monthly estimation of deferred revenue, the inclusion of faulty data presented an environment where these conditions would be present in subsequent quarterly sampling and verification.

- The USCIS designed sampling methodology included a materiality threshold that exceeded what we would expect USCIS to accept. However, we evaluated the results between the USCIS projection and our independent projection and noted a difference less than our audit misstatement posting threshold.

- The third quarter estimate and third quarter error rates were processed by USCIS on June 2, 2015, using the Statistical Analysis System. The universes used for estimation contained slight differences from the universes generated on June 1, 2015 with the same parameters that were provided to us. USCIS was not able to identify the cause of the discrepancy.

Recommendations:
We recommend that USCIS:

- Ensure appropriate staff members are adequately trained regarding the requirements of the quarterly review to ensure:
    - Criteria established in the deferred revenue standard operating procedures are properly applied in all cases.
    - Any unusual fee results from the Claims 3 mainframe query are researched to identify non-standard fees before the sampling results are finalized.
- Continue to increase the number and type of applications required to be processed through the Electronic Immigration System (ELIS) and ensure the application allows for the direct reporting of deferred revenue. The controls over the application status should eventually allow USCIS to retire their legacy tracking systems and replace their current estimation process.
- Document the targeted precision and factor in an expected error rate during sample design to show that the sample design meets precision targets at the associated confidence level.

USCIS – FMC 15-04 –Deficiencies in the Recording of Internal Use Software *(NFR No. USCIS 15-04)*

Through review of prior period adjustments and journal entries, we identified the following:

- The development of ELIS 2 Release 5.0 was not recorded timely and costs were not properly capitalized. In January of 2015, the Accounting and Reporting Branch was informed that costs related to the ELIS 2 Release 5.0 between March 2014 and November 2014 were not properly capitalized. On April 8, 2015, USCIS recorded a prior period adjustment for $2 million to internal use software in development (SGL 1832) and cost capitalization offset (SGL 6610) to record the capitalization of costs related to the development of the project for the time period of March 2014 to September 2014.
- The movement of DAT 1.0 from software in development (SGL 1832) to internal use software (SGL 1830) was not recorded timely; and costs that should have been expensed as operating and maintenance costs were improperly capitalized. DAT 1.0 was deployed in April of 2014; however, the program managers continued to report development costs that should have been reported as operating and maintenance costs related to the project through October 2014. On April 8, 2015, USCIS made a prior period adjustment for $600,000 to internal use software in development (SLG 1832) and cost capitalization offset (SGL 6610) to reduce the costs that were improperly recorded as software in development cost. Additionally on April 8, 2015, USCIS made a prior period adjustment for $670,000 to accumulated amortization on internal use software (SGL 1839) and depreciation, amortization and

depletion (SGL 6710) to record amortization that should have been recorded on the project between April 2014 and September 2014.

- The development of three projects were not recorded timely and costs were not properly capitalized. Costs related to projects CIS 2.3, NFTS 6.3, and eSTAT 1.0 were not reported for capitalized cost estimates for un-received invoices for September 2014. On January 12, 2015, USCIS made a prior period adjustment for $537,000 to internal-use software in development (SGL 1832) and cost capitalization offset (SGL 6610) to properly record the capitalization of costs related to these projects in September 2014.

- The development of project CRM 3.1 was not recorded timely and costs were not properly capitalized. The project began incurring development costs in July 2014; however, the Verification Division did not inform the Accounting and Reporting Branch that CRM 3.1 met the internal use software criteria until October 2014. On January 12, 2015, USCIS made a prior period adjustment for $1.6 million to internal use software in development (SGL 1832) and cost capitalization offset (SGL 6610) to record the capitalization of costs related to the development of the project for July 2014 and September 2014.

We performed testwork over internal use software disposals as of September 30, 2015, and noted the following:

- The disposal of the Secure Information Management System was not recorded timely. We noted that the asset was approved for disposal on August 13, 2010, according to the disposition Review Approval Certification. However, the Accounting and Reporting Branch was not notified of the disposal until the third quarter of 2015. At the time of disposal, the asset was fully depreciated. On June 30, 2015, USCIS recorded a disposal entry for $5.1 million to internal use software (SGL 1830) and losses on disposition of assets (SGL 7210) to remove the asset from internal use software. USCIS also made an entry for $5.1 million to accumulated amortization in internal use software (SGL 1839) and SGL 7210 to remove the accumulated amortization related to the asset.

Recommendation:
We recommend that USCIS continue to adhere to its established process, as documented in the Office of Information Technology Internal Use Software Standard Operating Procedure dated April 1, 2014, to ensure all costs incurred to date, including those costs incurred prior to FY 2015, are properly reported.

XIV. UNITED STATES SECRET SERVICE (USSS)

USSS – FMC 15-01 – Deficiencies in the Confidential Financial Disclosure Reporting Process *(NFR No. USSS 15-01)*

Controls over the submission and review of OGE-450 forms were not operating effectively. Specifically, during testwork over a sample of 45 employees required to file an OGE-450 form, the following deficiencies were identified:

- One employee did not file the OGE-450 within the 30 day deadline and was not granted extensions.

- One OGE-450 form was not fully completed by notation for all required questions and not identified during the review by the office of ethics.

Recommendation:
We recommend that USSS reinforce existing policies and procedures regarding filing of OGE-450 forms including timely submission and review of the forms.

USSS – FMC 15-02 – Ineffective Controls in the Seized Property Inventory Process *(NFR No. USSS 15-02)*

Controls over the physical security of seized property were not fully effective. Specifically, during testwork at three field offices, we identified the following control deficiencies:

- We noted two individuals did not sign the Evidence Vault Security Access Log (SF 4051) upon entry to the vault. While on site, we did not note any times where fewer than two individuals were present in the vault, but we could not confirm additional dates based on the vault log.

Recommendation:
We recommend that USSS train staff to emphasize the proper use of the SF 4051 (access logs).

USSS – FMC 15-03 – Ineffective Controls over Time and Attendance Approval *(NFR No. USSS 15-04)*

Controls over personal leave were not operating effectively. Specifically, during our testwork over the time and attendance process, we noted three of 45 employees used accrued annual leave prior to supervisory approval.

Recommendation:
We recommend that USSS document instances of emergency situations where leave is approved verbally and including when these verbal approvals are made.

USSS – FMC 15-04 – Recording of Expenses and Invoice Approval Controls *(NFR No. USSS 15-05)*

Controls over expenses and invoice approvals were not operating effectively. Specifically:

- During substantive testwork over operating expenses as of June 30, 2015, we noted one instance out of six in which the transaction should have been recorded as an advance instead of an expense since the goods and services had not been received.

- During operating expense controls testwork, we noted one sample out of 45 in which the invoice was paid prior to being approved by a manager.

Recommendations:
We recommend that USSS:

- Reinforce the policies and procedures to ensure accurate recording of advances and prepayments and for the proper approval of invoices prior to payment.

- Reinforce the existing policies and procedures for proper completion of the SF-4342 Purchase Card Transaction Worksheet.

Department of Homeland Security
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			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
CBP	15-01	Insufficient Retention Period for Documents that Support Drawback Claims		G		
CBP	15-02 15-02(a)	Inadequate Controls over Settlement of Assets as of April 30, 2015 Inadequate Controls over Settlement of Assets as of September 30, 2015				15-01
CBP	15-03	Lack of Controls to Detect Excessive Drawback Claims		G		
CBP	15-04	Lack of Controls to Determine Sufficiency of Drawback Continuous Bonds for Claimants Qualified for Accelerated Payments		G		
CBP	15-05	Control Deficiencies surrounding Entity-Level Controls		E		
CBP	15-06	Management Oversight of Property, Plant, and Equipment				15-02
CBP	15-07	Ineffective Controls over Refunds Prior to Disbursement		G		
CBP	15-08	Control Deficiencies over the In-Bond Process				15-03
CBP	15-09	Ineffective Controls over Review of Entry Edit/Exception Reports		G		
CBP	15-10	Ineffective Controls over the Timely Review of Liabilities for Deposit Accounts		G		
CBP	15-11	Ineffective Controls over the Review of Bond Sufficiency		G		
CBP	15-12	Lack of Controls over Monitoring of Heritage Asset Collections				15-04
CBP	15-13	Control Deficiencies in the Collections and Deposits Processes and Procedures		G		
CBP	15-14	Failure to Establish and Review Significant Accounting Policies and Standard Operating Procedures in Various Areas				15-05
CBP	15-15	Deficiencies in the Public and Confidential Financial Disclosure Reporting Process				15-06
CBP	15-16	Improper Review and Untimely De-obligation of Undelivered Orders		D		
CBP	15-17	Deficiencies in the Trade Compliance Measurement Review Process				15-07
CBP	15-18	Ineffective Controls over Review of Federal Employee Compensation Act Claims				15-08
CBP	15-19	Improper Recording of Fines and Penalties Receivable				15-09
CBP	15-20	Ineffective control over Asset Disposals as of September 30, 2015				15-10
CBP	15-21	Deficiencies in Tracking Leases				15-11

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			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
CBP	15-22	Non-Compliance with Federal Financial Management Improvement Act (FFMIA)			K	
CBP	15-23	Ineffective Controls in the Review of Adjusting Journal Entries				15-12
CBP	15-24	Lack of Controls over Advances and Prepayments				15-13
CBP	15-25	Ineffective Application of Allowance Methodology				15-14
CBP	15-26	Ineffective Controls in the Seized and Forfeited Property Inventory Process				15-15
DNDO	15-01	Undelivered Orders Population Provided for Audit				15-01
FEMA	15-01	Failure to Review Policies and Procedures in Various Areas				15-01
FEMA	15-02	Issues Identified in Journal Voucher Testwork as of March 31, 2015				15-02
FEMA	15-03	Payroll Processing Control Deficiencies				15-03
FEMA	15-04	Deficiencies in the Web Integrated Financial Management Information System (WebIFMIS) Chart of Accounts				15-04
FEMA	15-05	Non-Compliance with 5 CFR Part 2634 and 5 CFR Part 2638 Related to Ethics Requirements				15-05
FEMA	15-06	Deficiencies in the WebIFMIS Transaction Codes				15-06
FEMA	15-07	Ineffective Controls over Procurement Contract Management and Non-Compliance with Federal Acquisition Regulation				15-07
FEMA	15-08	Ineffective Controls over Grant De-obligations and Obligations		D		
FEMA	15-09	Ineffective Controls over Grants Management, Monitoring Efforts		F		
FEMA	15-10	Ineffective Controls over Intergovernmental Activity Payments				15-08
FEMA	15-11	Untimely De-obligation of Undelivered Orders		D		
FEMA	15-12	Deficiencies in Authorization and Approval of Personnel Actions				15-09
FEMA	15-13	Ineffective Controls over Grant Monitoring Efforts			I	15-10
FEMA	15-14	Ineffective Controls over Assistance for Firefighters Grants Monitoring Efforts and Non-Compliance with Cash Management Improvement Act		F		
FEMA	15-15	Ineffective Controls over Grant Accrual Journal Vouchers				15-11

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			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
FEMA	15-16	Ineffective Controls over Procurement Obligations and De-obligations		D		
FEMA	15-17	Monitoring of Audit Findings in Accordance with OMB Circular No. A-133		F	I	
FEMA	15-18	Ineffective Controls over Grants Eligible for Close-out		F		
FEMA	15-19	Deficiencies Identified over Claims' Case Reserves at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program				15-12
FEMA	15-20	Non-Compliance with the Federal Financial Management Improvement Act (FFMIA)			K	
FEMA	15-21	Lack of Manual Compensating Controls to Ensure Completeness of Undelivered Orders in WebIFMIS		B, D		
FEMA	15-22	Lack of Implementation of Complementary User Entity Controls related to the U.S. Department of Health and Human Services Payment Management System				15-13
FLETC	15-01	Lack of Segregation of Duties over Standard Journal Voucher Postings				15-01
FLETC	15-02	Untimely and Incomplete Submission of Employee Indoctrination Record				15-02
FLETC	15-03	Invalid and Inaccurate Undelivered Orders		D		
FLETC	15-04	Improper Contract Management over Reimbursable Agreements				15-03
FLETC	15-05	Accounts Payable Accrual				15-04
ICE	15-01	Intra-Departmental Reconciliation	A			
ICE	15-02	Non-GAAP Analysis				15-01
ICE	15-03	Apportioned and Unapportioned Balances				15-02
ICE	15-04	Fund Balance with Treasury Cash Adjustments	A			
ICE	15-05	Accounts Payable Look-Back Analysis				15-03
ICE	15-06	Miscellaneous Non-Contract Undelivered Orders		D		
ICE	15-07	Intra-Governmental Payment and Collection Expense Approval	A			
ICE	15-08	Entity-Level Controls – OGE-450 Form: Confidential Financial Disclosure Report				15-04
ICE	15-09	Entity-Level Controls – Performance Reviews				15-05
ICE	15-10	Real Property Management System Information Produced by the Entity				15-06

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			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
ICE	15-11	PRISM Information Produced by the Entity		D		
ICE	15-12	Journal Entry Review and Approval	A			
ICE	15-13	Antideficiency Act			J	
ICE	15-14	Undelivered Orders Analysis				15-07
ICE	15-15	Funds Management and Untimely Recording of obligation activity to the general ledger		D		
ICE	15-16	Operating Expenses				15-08
MGA	15-01	Potential Antideficiency Act Violation			J	
MGMT	15-01	Monitoring of Service Provider Performed Functions	A			
MGMT	15-02	Federal Financial Management System to PRISM Reconciliation		D		
MGMT	15-03	Suspense Reconciliation	A			
MGMT	15-04	Review of Aged Accounts Receivable Balances	A			
MGMT	15-05	Undelivered Orders		D		
MGMT	15-06	Journal Entry Review Process	A			
MGMT	15-07	Operating Expense Approval	A			
MGMT	15-08	Statement of Differences				15-01
MGMT	15-09	Antideficiency Act			J	
MGMT	15-10	Entity-Level Controls – Performance Reviews				15-02
NPPD	15-01	Approval of Personnel Actions				15-01
NPPD	15-02	Time and Attendance				15-02
NPPD	15-03	Monitoring of Service Provider Performed Functions	A			
NPPD	15-04	Revenue Accrual				15-03
NPPD	15-05	FFMS to PRISM Reconciliation		D		
NPPD	15-06	Recovery of Prior Year Obligations		D		
NPPD	15-07	Operating Expense Approval	A			
NPPD	15-08	Journal Entry Review Process	A			
NPPD	15-09	Undelivered Orders		D		

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			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
NPPD	15-10	Entity-Level Controls – Performance Reviews				15-04
NPPD	15-11	Accounting for CDM Program Costs	A			
NPPD	15-12	Suspense Reconciliation				15-05
NPPD	15-13	Antideficiency Act			J	
NPPD	15-14	Accounting for Einstein Program Costs	A, C			
OHA	15-01	Operating Expenses				15-01
OFM	15-01	Non-Compliance with Financial Disclosure Filing Requirements and Ethics Training Requirements				15-01
OFM	15-02	Departmental Standards of Conduct				15-02
OFM	15-03	Non-Compliance with Federal Manager's Financial Integrity Act (FMFIA) of 1982			H	
OFM	15-04	Intra-Departmental Reconciliation of Unfilled Customer Order and Undelivered Order Balances				15-03
OFM	15-05	Evaluation of Potential Subsequent Events Related to Actuarially Derived Estimates				15-04
OFM	15-06	Review of the Closing Package Financial Statements and Notes				15-05
S&T	15-01	Monitoring of Service Provider Performed Functions	A			
S&T	15-02	Intra-Governmental Payment and Collection Expense Approval				15-01
S&T	15-03	Operating Expense Approval	A			
S&T	15-04	Impairment Analysis				15-02
S&T	15-05	Undelivered Orders		D		
S&T	15-06	Depreciation Expense	A			
S&T	15-07	FFMS to PRISM Reconciliation		D		
S&T	15-08	Accounting for National Bio and Agro-Defense Facility Land Donation				15-03
S&T	15-09	Invalid Undelivered Orders Balances		D		
S&T	15-10	Unfilled Customer Orders				15-04
TSA	15-01	Ineffective Controls over the Time and Attendance Process				15-01

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			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
TSA	15-02	Inadequate Approval of Personnel Actions				15-02
TSA	15-03	Insufficient Review of Personnel Actions				15-03
TSA	15-04	Ineffective Controls over Depreciation of Property, Plant, and Equipment				15-04
TSA	15-05	Ineffective Controls over Property, Plant, and Equipment Retirements				15-05
TSA	15-06	Ineffective Controls over the Completeness and Accuracy of the Accounts Payable Look-Back Analysis				15-06
TSA	15-07	Inadequate Approval of Undelivered Orders		D		
TSA	15-08	Ineffective Controls over Adjustments to Prior Year Obligations		D		
TSA	15-09	Ineffective Controls over the Review of Intra-Governmental Payments and Collections				15-07
TSA	15-10	Ineffective Controls over the Undelivered Orders Validation and Verification		D		
TSA	15-11	Control Deficiencies related to OGE-278 and OGE-450 Forms				15-08
TSA	15-12	Ineffective Controls over the Review of the Accounts Receivable Accrual				15-09
TSA	15-13	Ineffective Controls Over Federal Employees' Compensation Act Claims				15-10
TSA	15-14	Ineffective Controls over the Funded Accrued Payroll Reconciliation				15-11
TSA	15-15	Non-Compliance with the Federal Financial Management Improvement Act of 1996			K	
USCG	15-01	Opening Balances	A			
USCG	15-02	Financial Disclosure Reports				15-01
USCG	15-03	Operating Expense Process				15-02
USCG	15-04	New Hire Ethics Requirements				15-03
USCG	15-05	Preparation of U.S. Government Accountability Office (GAO) Financial Audit Manual 2010 Checklist				15-04
USCG	15-06	Fund Balance with Treasury				15-05
USCG	15-07	Entity-Level Controls				15-06
USCG	15-08	Environmental and Disposal Liabilities	A, C			
USCG	15-09	Property, Plant, and Equipment Site Visit Observations				15-07
USCG	15-10	Leases and Leasehold Improvements	C			

Department of Homeland Security
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			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
USCG	15-11	Internal Use Software and Internal Use Software in Development	C			
USCG	15-12	Construction in Process	A, C			
USCG	15-13	Personal Property and Equipment	A, C			
USCG	15-14	Real Property	A, C			
USCG	15-15	Heritage Assets and Stewardship Property				15-08
USCG	15-16	Operating Materials and Supplies	A, C			
USCG	15-17	Manual Journal Entries and On-Top Adjustments (Financial Reporting)	A			
USCG	15-18	Accounts Receivable				15-09
USCG	15-19	Civilian and Military Payroll				15-10
USCG	15-20	Intra-Governmental Transactions and Balances	A			
USCG	15-21	Accounts Payable Accrual				15-11
USCG	15-22	Actuarial Liabilities	A			
USCG	15-23	Federal Financial Management Improvement Act of 1996	A		K	
USCG	15-24	Budgetary Process – Undelivered Orders		D		
USCG	15-25	Preparation of Non-GAAP Analysis				15-12
USCG	15-26	Financial Reporting Process				15-13
USCIS	15-01	Deficiencies in Monitoring and Recording Employee Completion of the Annual Ethics and Integrity Training				15-01
USCIS	15-02	Non-Compliance with the Prompt Payment Act				15-02
USCIS	15-03	Inaccurate and Unsupported Data in the CLAIMS 3 CLAIMS 4 and MFAS Systems				15-03
USCIS	15-04	Deficiencies in the Recording of Internal Use Software				15-04
USSS	15-01	Deficiencies in the Confidential Financial Disclosure Reporting Process				15-01
USSS	15-02	Ineffective Controls in the Seized Property Inventory Process				15-02
USSS	15-03	Funds Management: Untimely Recording of De-obligations		D		
USSS	15-04	Ineffective Controls over Time and Attendance Approval				15-03

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			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
USSS	15-05	Recording of Expenses and Invoice Approval Controls				15-04

[1]<u>Disposition Legend:</u>
IAR Independent Auditors' Report dated November 13, 2015
FMC Financial Management Comment
MW Contributed to a Material Weakness at the Department-level when combined with the results of all other components
SD Contributed to a Significant Deficiency at the Department-level when combined with the results of all other components
NC Contributed to Non-Compliance with laws, regulations, contracts, and grant agreements at the Department-level when combined with the results of all other components
NFR Notice of Finding and Recommendation

<u>Cross-reference to the applicable sections of the IAR:</u>
A Financial Reporting
B Information Technology Controls and Financial System Functionality
C Property, Plant, and Equipment
D Budgetary Accounting
E Entity-Level Controls
F Grants Management
G Custodial Revenue and Refunds and Drawback
H *Federal Managers' Financial Integrity Act of 1982* (FMFIA)
I *Single Audit Act Amendments of 1996*
J *Antideficiency Act*, as amended (ADA)
K *Federal Financial Management Improvement Act of 1996* (FFMIA)

U.S. Department of Homeland Security
Washington, DC 20528

Homeland Security

February 24, 2016

MEMORANDUM FOR: Mark Bell
Assistant Inspector General for Audits

FROM: Jeffrey M. Bobich *Jeffrey M. Bobich*
Director, Office of Financial Management

SUBJECT: Management Letter for the DHS FY 2015 Financial Statements and Internal Control over Financial Reporting Audit

Thank you for the opportunity to comment on the Draft Management Letter for the FY 2015 DHS Financial Statements and Internal Control over Financial Reporting Audit. We concur with the report's recommendations and remain fully committed to addressing our remaining financial management challenges.

In FY 2015, the Department continued to make progress and sustained the unmodified (clean) financial statement opinion. We appreciate your office's contributions and insights, and we look forward to working with you as we implement our corrective actions to address our remaining material weaknesses and further strengthen DHS financial management and internal control.

If you have any questions, please contact me at (202) 447-0204 or Jeffrey.Bobich@hq.dhs.gov.

Appendix A
Report Distribution

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