



# Department of Homeland Security Office of Inspector General

## **Independent Auditor's Report on FEMA's FY 2008 Mission Action Plans included in DHS' FY 2009 Internal Control Playbook**





Homeland  
Security

June 5, 2009

Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

The attached report presents the results of the Federal Emergency Management Agency's fiscal year 2008 Mission Action Plans audit. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audit. The contract required that KPMG perform its audits according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG is responsible for the attached auditor's report and the conclusions expressed in it.

The recommendations herein have been discussed in draft with those responsible for implementation. We trust this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in cursive script that reads "Richard L. Skinner".

Richard L. Skinner  
Inspector General



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May 12, 2009

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This report presents the results of our work conducted to address the performance audit objectives relative to the Department of Homeland Security's (DHS or the Department) Mission Action Plans (MAPs) developed to address the internal control deficiencies at the Federal Emergency Management Agency (FEMA). These deficiencies were identified by management and/or reported in the KPMG LLP (KPMG) Independent Auditors' Report included in the Department's fiscal year 2008 *Annual Financial Report*.

This performance audit is part of a series of three performance audits that the Department's Office of Inspector General (OIG) engaged us to perform related to the Department's fiscal year 2009 MAPs for use in developing the Department's *Internal Control Over Financial Reporting (ICOFR) Playbook*. This performance audit was designed to meet the objectives identified in the Objectives, Scope, Methodology and Approach section of this report. Our procedures were performed using the MAPs provided to us on January 21, 2009. Interviews with DHS and FEMA management and other testwork was performed at various times through May 12, 2009, and our results reported herein are as of May 12, 2009.

We conducted this performance audit in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings based on our audit objectives.

This performance audit did not constitute an audit of the financial statements in accordance with *Government Auditing Standards*. KPMG was not engaged to, and did not, render an opinion on the Department's or FEMA's internal control over financial reporting or over financial management systems (for purposes of OMB Circular No. A-127, *Financial Management Systems*, as revised). KPMG cautions that projecting the results of our evaluation to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

**KPMG LLP**

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## EXECUTIVE SUMMARY

The Department has identified deficiencies in internal control over financial reporting through its annual assessment conducted pursuant to Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, and in compliance with the *Federal Managers' Financial Integrity Act* (FMFIA). Some of the deficiencies were identified as significant deficiencies or material weaknesses, in the Independent Auditors' Report included in the FY 2008 DHS Annual Financial Report (AFR). Beginning in 2006, the Department began a comprehensive corrective action plan to remediate known internal control deficiencies. The plan is documented in the *Internal Controls Over Financial Reporting Playbook* (ICOFR Playbook). The Mission Action Plan (MAP) is a key element of the ICOFR Playbook that documents the remediation actions planned for each internal control deficiency at the DHS component level. The MAP provides specific actions, timeframes, key milestones, assignment of responsibility, and validation procedures.

The Federal Emergency Management Agency (FEMA) developed four MAPs related to significant deficiencies or material weaknesses (as presented in the FY 2008 Independent Auditors' Report) submitted by FEMA to the Department's Chief Financial Officer for inclusion in the FY 2009 ICOFR Playbook. The MAPs address control deficiencies identified in:

- Entity Level Controls (ELC)
- Financial Reporting
- Budgetary Accounting
- Property Management

### ***Objective, Scope, Methodology and Approach***

We conducted our audit in accordance with the standards applicable to such audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

The objective of this performance audit was to evaluate and report on the status of the four MAPs described above. Our audit was performed using criteria to evaluate the MAP development process and content. The evaluation criteria were developed from a variety of sources including technical guidance published by OMB, the Government Accountability Office, and from applicable laws and regulations. We also considered DHS' policies and guidance, and input from the Office of Inspector General when designing evaluation criteria. Our evaluation criteria were:

- Identification (of the root cause) – Identification of the appropriate underlying root cause that is causing the internal control deficiency condition(s).
- Development (of the MAP) – Clear action steps that address the root cause, and attainable and measurable milestones at an appropriate level of detail.
- Accountability (for execution of the MAP) – The individual MAP owner is responsible for its successful implementation, ensuring that milestones are achieved and that the validation phase is completed.
- Verification and validation – The MAP includes written procedures to verify successful implementation of the MAP, a means to track progress throughout the MAP lifecycle, and reporting results when complete.

### ***Findings and Recommendations:***

We found that FEMA has prepared MAPs that address its known control deficiencies described above, and the MAP's were submitted timely to the Department for inclusion with the FY 2009 ICOFR Playbook. We noted that:

1. The Entity Level Control MAP is not fully developed as of the date of our audit. Accountability for remediation is assigned to a "Internal Control Board" of senior executives; however, the Board had

not been formed as of the date of our audit, and the Board's Charter is not yet developed. Specific verification and validation steps are also not identified.

We recommend that FEMA form the Internal Control Board of senior executives, and establish the Board's Charter. Under the Internal Control Board's direction, develop the MAP, including the performance of more extensive root cause analysis and development of associated corrective actions, milestones, performance metrics and verification processes.

2. The Financial Reporting MAP does not adequately emphasize the primary root cause of the control weaknesses, which is a lack of a sufficient number of skilled accounting and financial reporting resources. The milestones are not sufficiently developed to address the primary cause of the control deficiency. The MAP does not include detailed procedures to assess the functionality of current information technology (IT) system used in affected processes. The verification and validation criteria are focused on results of external audits, instead of on FEMA's own verification and validation procedures.

We recommend that FEMA expand the financial reporting root cause analysis. We also recommend that FEMA improve the MAP to include more detailed, specific and measurable action steps and assignments to individuals. In addition, FEMA should link the milestones to root causes and financial statement assertions, and establish an appropriate and reasonable time-line for completion. FEMA should develop a plan for verification and validation that is focused on results of internal metrics and is not dependent on reviews of external auditors.

3. The Budgetary and Property Management MAPs substantially comply with the evaluation criteria described above. We noted only nominal findings when compared to the evaluation criteria. In addition, we reported that verification and validation procedures should be further developed. We have made recommendations for consideration by FEMA management that may improve those MAPs.

FEMA continued to make certain modifications to the MAPs noted above after January 21, 2009 (the date we received the MAPs and began our audit), some of which may have addressed our findings presented above and within this report. However, we have not performed audit procedures on any modifications made to MAP's after the start of our audit, and the effect of those modifications are not reflected in this report.

## BACKGROUND

The Department of Homeland Security (DHS) and the Federal Emergency Management Agency (FEMA) recognize that deficiencies in internal control exist. The internal control deficiencies are reported by DHS management in its annual Secretary's Assurance Statement, issued pursuant to OMB Circular A-123, *Management's Responsibility for Internal Control*. The Secretary's Assurance Statement and the findings of the external auditor were reported in the Department's fiscal year (FY) 2008 *Annual Financial Report* (AFR). The conditions causing the internal control weaknesses are diverse and complex. Many conditions, which are systemic, were inherited with the legacy financial processes and IT systems in place at the time of the Department's formation in 2003. The evolution of the Department's mission, programs, component restructuring, and other infrastructure changes, has made remediation of these internal control weaknesses very challenging. To meet this challenge, the Department's Secretary, Chief Financial Officer, and financial management in the DHS components adopted a comprehensive strategy to implement corrective actions beginning in FY 2006 and continuing into future years.

The Office of the Chief Financial Officer (OCFO), Internal Control Program Management Office (ICPMO) is primarily responsible for the development and implementation of the Department's strategy to implement Mission Action Plans (MAPs). The ICPMO has documented its strategy and other related plans to remediate identified internal control deficiencies in the *Internal Controls Over Financial Reporting Playbook* (ICOFR Playbook).

In 2006, the Department issued Management Directive 1030, *Corrective Action Plans*, and the Department enhanced its existing guidance by issuing the *FY 2009 Mission Action Plan Guide* (MAP Guide). To comply with Management Directive 1030 and the MAP Guide, FEMA prepared four detailed MAPs to address the internal control deficiencies over Entity Level Controls; Financial Reporting; Property Management; and Budgetary Accounting. The control deficiencies are summarized below:

- Entity Level Controls – FEMA has not effectively communicated the importance of strong financial management and internal controls throughout the agency, has not developed sufficiently effective methods of communication, and does not have sufficient resources in its regional offices. In addition, FEMA has not documented or updated formal policies and procedures for many of the roles within the agency.
- Financial Reporting – FEMA does not have a sufficient number of experienced financial staff to address non-routine accounting issues timely. For instance, FEMA did not prepare and record adjustments for its National Flood Insurance Program (NFIP) accurately or establish an accounts payable accrual for certain obligations. In addition, FEMA lacks segregation of duties within its financial reporting process, and did not fully reconcile its intragovernmental balances with trading partners.
- Budgetary Accounting –FEMA has not adequately monitored the status of its mission assignment obligations nor ensured the timely deobligation of mission assignments. The control weaknesses surrounding these mission assignments may allow a material misstatement of the related undelivered orders to go undetected. During FY 2008, FEMA was unable to obtain timely documentary evidence, including sufficient cost/billing data from other Federal agencies supporting the progress of active mission assignments, and therefore was not able to deobligate or validate the continued carrying of mission assignment undelivered orders timely. In addition, FEMA could not provide all supporting documentation for a sample of non-mission assignment, non-grant undelivered orders.
- Property Management – FEMA has not maintained records of actual costs for its internal use software or internal use software in development. FEMA is currently estimating and recording an estimate of the capitalizable cost of these assets on an annual basis and recording the entry at

year-end. In addition, FEMA does not have procedures in place to periodically assess the reliability of its internal use software estimates, such as a comparison of estimates to actual costs.

## **OBJECTIVE, SCOPE, METHODOLOGY AND APPROACH**

### **Objective and Scope**

The objective of this performance audit was to evaluate and report on the status of detailed MAPs prepared by FEMA to correct internal control deficiencies that are contributing to the Department's significant deficiencies or material weaknesses existing at the end of FY 2008. Our evaluation was performed using evaluation criteria, described in the methodology section below, to assess the process used to develop and document FEMA's FY 2009 MAPs. Our findings, by MAP, are presented below, and more detailed findings, categorized by criteria, are presented in the attached Exhibit I. We did not evaluate the outcome of the MAP process or any corrective actions taken by management during our audit, and our findings should not be used to project ultimate results from MAP implementation. Recommendations are provided to help address findings identified during our performance audit.

The four MAPs subjected to our evaluation were:

1. Entity Level Controls;
2. Financial Reporting;
3. Budgetary Accounting; and
4. Property Management.

The MAPs were provided to us by the OCFO, on behalf of FEMA, on January 21, 2009. The scope of this performance audit did not include procedures on any of the MAPs associated with other control deficiencies existing at FEMA as of September 30, 2008. Our audit was performed between January 21, 2009 and May 12, 2009, and our results reported herein are as of May 12, 2009.

FEMA continued to make modifications to the MAPs noted above after January 21, 2009 (the date we received the MAPs), some of which may have addressed the comments below. However, we have not performed audit procedures on any modifications made to MAP's after the start of our audit, and the effect of those modifications are not reflected in this report.

### **Methodology and Approach**

We conducted this performance audit in accordance with the standards applicable to such audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Our methodology consisted of the following four-phased approach:

*Project Initiation and Planning* – We attended meetings with the Department's OIG, OCFO, and FEMA to review the performance audit objectives, scope, describe our approach, communicate data requests, and to gain an understanding of the status of FEMA's 2009 MAPs.

*Data Gathering* – We performed interviews with accounting and finance management and staff at FEMA and OCFO. Through these interviews, we gained an understanding of the process used to develop the MAPs, including key inputs and data used, assumptions made, and reasons for conclusions reached. The interviews focused on the analysis performed by FEMA to identify the underlying problems creating the internal control weakness (root cause) and planned corrective actions, the critical milestones chosen for measurement, and the methods used to monitor and validate progress in meeting the milestones. We discussed FEMA's resource allocation strategy employed in the development and eventual implementation of the MAP, including the utilization of contractors to supplement staff as needed and the use of specialists, if necessary.

We performed reviews of key documents and supporting information provided to us by OCFO. Our documentation reviews included:



- The four FEMA MAPs (i.e., the MAP Detail and Summary Reports) that were included within our scope, and any underlying supporting documentation provided by FEMA.
- The Notices of Findings and Recommendations (NFRs) issued during the FY 2008 financial statement audit by the external auditors that supported the internal control findings reported in the FY 2008 Independent Auditors' Report.
- The Annual Component Head Assurance Statements provided pursuant to the requirements of OMB Circular A-123.
- The ICOFR Playbook, MD 1030, the MAP Guide, and existing internal control monitoring guidance (e.g., OMB Circular No. A-123).

*Analysis Using Established Criteria* – Our evaluation criteria was developed from a variety of sources including technical guidance published by OMB, e.g., Circular A-123, the GAO, e.g. *Standards for Internal Control in the Federal Government*, and applicable Federal laws and regulations, e.g., FMFIA. We also considered DHS' policies and guidance, e.g. the MAP Guide and the ICOFR Playbook, and input from the OIG. Our evaluation criteria were:

- Identification (of the root cause) – Identification of the appropriate underlying root cause that is causing the internal control deficiency. A comprehensive analysis typically includes a full assessment of the business processes, data flows, and information systems that drive the transactions/activities associated with the accounting process where the internal control deficiencies are believed to exist. A thorough root cause analysis should include:
  - Research to discover why, when, and how the condition occurred – what went wrong and why?
  - Investigation to determine if the problem is design or execution, or both.
  - An evaluation to determine if IT system functionality is contributing to the problem and if IT system modifications could be part of the remediation.
  - An evaluation of internal controls, including the existence of compensating controls that may mitigate the deficiency.
- Development (of the MAP) – The MAP includes action steps that address the root cause, and attainable and measurable milestones at an appropriate level of granularity. Milestones should enable independent analysis of a MAP's effectiveness in remediation of root causes and provide MAP users with insight on the status of the MAP's implementation. For example, the MAP should enable a user to determine if the appropriate level of resources to execute a milestone is available and to identify potential missing elements in milestones (e.g. a contractor may be needed before a specific milestone can be achieved).
- Accountability (for execution of the MAP) – Accountability for the MAP is clearly identified and assigned. The individual MAP owner is responsible for its successful implementation, ensuring the achievement of milestones and validation of results.
- Verification and Validation – The MAP includes written procedures that verify successful implementation of the MAP, a means to track progress throughout the MAP lifecycle, and reporting results when complete. These activities should include documentation reviews, work observations, and performance testing that is maintained for internal OMB A-123 review and external audit.

*Findings and Recommendations* – After conducting our audit, we formulated our findings and recommendations. The findings represent areas for potential improvement that could negatively affect FEMA's remediation of the significant deficiencies and/or material weaknesses if the MAP is performed as designed.

## FINDINGS AND RECOMMENDATIONS

### Conditions

FEMA prepared and submitted MAPs to the OCFO as instructed in the MAP Guide. There were MAPs for each of the four primary processes where significant deficiencies and material weaknesses existed at the end of FY 2008. Based on our inquiry with FEMA personnel, we determined that FEMA was knowledgeable of the MAP Guide, performed a limited review to determine the source and cause of the control deficiencies, and incorporated the results into the individual MAPs in the form of milestones. FEMA management exhibited an understanding of the issues and described some corrective actions that were not always documented in the MAP.

The following chart identifies where we noted areas for improvement by MAP and criteria, indicated by a shaded box. **Exhibit I** provides a detailed explanation of the issues noted.

Matrix of Conditions					
Criteria:	MAP:	ELC (1)	FR (2)	Prop (3)	Bud (4)
Identification (of root cause)					
Development of MAP					
Accountability of the MAP					
Verification & Validation					

**Key:**  
**ELC** – Entity-Level Controls  
**FR** – Financial Reporting  
**Prop** – Property Management  
**Bud** – Budgetary Accounting

(1) Entity Level Controls – The Entity Level Controls MAP adequately identifies the root causes of this control weakness as a lack of an appropriate tone-at-the-top and involvement / ownership by senior leadership. However, the root cause analysis is limited to the information in the MAP, and support is not available to indicate a meaningful analysis was performed. In addition, the MAP is otherwise undeveloped. Milestones are not specific. The MAP does not address remediation of this challenge within the milestones or clearly defined future actions. Accountability for remediation is assigned to an “Internal Control Board” of senior executives, however the Board has not been formed as of the date of our audit, and the Board’s Charter is not yet developed. Specific validation and verification steps are not identified.

(2) Financial Reporting – The root causes described are symptoms of financial reporting control deficiencies, instead of the underlying cause. In addition, the root cause analysis is limited to the information in the MAPs, and support is not available to indicate a true analysis was performed. The milestones are not sufficiently developed to address the primary cause of the control deficiency, and are not always clearly linked to root causes or financial statement assertions. The MAP does not include detailed procedures to address issues with the reconciliation of intragovernmental transactions, and some milestone due dates appear inconsistent. The verification and validation criteria are inappropriately focused on results of audits performed by external auditors, and are not clearly linked to FEMA’s own procedures or the Department’s OMB Circular A-123 initiatives currently underway.

(3) Property Management and Budgetary Accounting – The Property Management and Budgetary Accounting MAPs are generally well developed in three of the four criteria. The root causes and milestones developed appear appropriate to address the control deficiencies, and accountability is assigned. However, the root cause analysis is limited to the information in the MAPs, and support is not available to indicate a true analysis was performed. Both MAPs do not identify all relevant financial statement assertions, and some milestones appear duplicative or disjointed. Both MAPs lack a detailed plan for verification and validation.

### *Cause/Effect*

The conditions noted above are due to the preliminary stage of development of the MAPs. Management has relatively little time from year-end (i.e., September 30, 2008) to the date of submission of the MAPs to the DHS Office of the Chief Financial Officer for review. Further development of the MAPs after the date of submission is common. In addition, some of the conditions noted above (e.g. interdependencies) are for further improvement of the MAPs and are not requirements per the DHS FY09 MAP Guide. A lack of a comprehensive and detailed MAP could lead to the control deficiencies not being corrected.

### *Recommendations*

We recommend that FEMA perform the following to address our findings:

1. Entity-Level Controls:
  - a. Document the detailed root cause analysis to support the conclusions reached.
  - b. Form the Internal Control Board of senior executives, and establish the Board's Charter.
  - c. Under the Internal Control Board's direction, further develop the MAP, including detailed milestones and performance metrics.
  - d. Develop specific verification and validation procedures, to include accountability and due dates.
2. Financial Reporting:
  - a. Expand the root cause analysis related to staffing and human resources. Remove or deemphasize root causes that are symptomatic of control deficiencies. In addition, document the detailed root cause analysis to support the conclusions reached.
  - b. Expand the MAP, especially related to human resources, to include more detailed, specific, and measurable action steps. In addition, clearly link the milestones to root causes and financial statement assertions, and ensure an appropriate and reasonable time-line for completion. The MAP and milestone chart will likely require periodic updates as management proceeds with its corrective actions.
  - c. Develop a plan for verification and validation that identifies appropriate performance metrics and can be used to monitor and report results throughout the MAP milestones. In addition, we recommend that FEMA link the MAPs to the Department's OMB Circular A-123 initiatives currently underway.
3. Property Management and Budgetary Accounting:
  - a. Document the detailed root cause analysis to support the conclusions reached.
  - b. Clarify the milestones to ensure that duplicative milestones are revised as necessary, and timelines are appropriate in relation to other milestones.
  - c. Develop a plan for verification and validation that identifies appropriate performance metrics and can be used to monitor and report results throughout the MAP milestones. In addition, we recommend that FEMA link the MAPs to the Department's OMB Circular A-123 initiatives currently underway.

## **MANAGEMENT RESPONSE TO REPORT**

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations. We did not audit management's response and, accordingly, we express no opinion on it.

## KEY DOCUMENTS AND DEFINITIONS

This section provides key definitions and documents for the purposes of this report.

The Federal Managers' Financial Integrity Act (FMFIA) requires that Executive Branch Federal agencies establish and maintain an effective internal control environment according to the standards prescribed by the Comptroller General. Those standards are published in the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*. In addition, it requires the head of the agency to annually evaluate and report on the adequacy of the agency's systems of internal accounting and administrative control.

GAO's Standards for Internal Control in the Federal Government (Standards) defines internal control as an integral component of an organization's management that provides reasonable assurance of: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

The Department of Homeland Security Financial Accountability Act (the DHS FAA) brought the Chief Financial Officer (CFO) for DHS under the *Chief Financial Officers Act*, thus making the DHS CFO a Presidentially appointed position requiring Senate confirmation. Furthermore, the DHS FAA requires that an audit opinion of the internal controls over financial reporting be included in the Department's Performance and Accountability Report.

Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Internal Control, provides guidance on internal controls and requires agencies and Federal managers to 1) develop and implement internal controls; 2) assess the adequacy of internal controls; 3) separately assess and document internal control over financial reporting; 4) identify needed improvements; 5) take corresponding corrective action; and 6) report annually on internal controls. The successful implementation of these requirements facilitates compliance with both FMFIA and the *Chief Financial Officers Act*.

Office of Management and Budget (OMB) Circular No. A-127, Financial Management Systems, prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems. The successful implementation of these requirements facilitates compliance with both FMFIA and the *Chief Financial Officers Act*.

Internal Control Deficiencies – A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects DHS' ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of DHS' financial statements that is more than inconsequential will not be prevented or detected by DHS' internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by DHS' internal control.

Management Directive (MD) 1030, Corrective Action Plans, establishes DHS' vision and direction on the roles and responsibilities for developing, maintaining, reporting, and monitoring CAPs (i.e., MAPs) specific to the DHS FAA, FMFIA, and related OMB guidance. In addition to roles and responsibilities, MD 1030 outlines the policies and procedures related to the CAP process. The organizational structure detailed in MD 1030 encompasses employees at all components and offices.

The Internal Controls Over Financial Reporting (ICOFR) Playbook (ICOFR Playbook) was developed by the OCFO, Internal Control Program Management Office, to design and implement department-wide internal controls, pursuant to the DHS FAA, OMB Circular No. A-123, and FMFIA. Per the Executive

Summary in the FY 2008 ICOFR Playbook, the Playbook outlines the Department's "strategy to design and implement an effective internal control system to support the mission, eliminate material weaknesses, and build management assurances." On an annual basis, the ICOFR Playbook is updated by the OCFO to enhance its existing guidance, as necessary, and establish action plan milestones, which will be monitored by the OCFO throughout the year. One component of the ICOFR Playbook includes MAPs developed by the Department and its components to correct material weakness conditions and document accomplishments and progress (according to the FY 2008 Playbook).

The Mission Action Plan Guide, Financial Management Focus Areas Fiscal Year 2008 (MAP Guide) outlines the policies and procedures to be used to develop MAPs throughout DHS, pursuant to the roles and responsibilities established by the DHS Management Directive (MD) 1030, *Corrective Action Plans*. The MAP Guide applies to all Department Components and Offices (e.g., OCFO) where a control deficiency has been identified. Note non-conformances related to the *Federal Information Security Management Act (FISMA)*, are under the purview of the *Department's Chief Information Security Officer's Plan of Action and Milestones (POA&M) Process Guide*.

Electronic Program Management Office (ePMO) is a Web-based software application the OCFO deployed to manage the collection and reporting of MAP information.

Mission Action Plans (MAPs), as defined in the MAP Guide, are documents prepared to facilitate the remediation of internal control deficiencies identified by management or by external parties. MAP documentation, as described in detail in the MAP Guide, includes a MAP Summary Report and a MAP Detailed Report that are required to be submitted to the OCFO through ePMO. Below are brief descriptions of the MAP Summary and MAP Detailed Reports, based on the *ePMO MAP Reports Quick Guide* contained in the MAP Guide:

- The MAP Summary Report contains sections to describe the issue (e.g. internal control deficiency conditions), results of the root cause analysis performed, relevant financial statement assertions affected by the issue, key strategies and performance measures, resources required, an analysis of the risks and impediments as seen by management, verification and validation methods, and the critical milestones to be achieved.
- The MAP Detailed Report provides additional data on the milestones, not only on those identified as critical but also those sub-milestones under a critical milestone. For each milestone (critical or sub), the following data is reflected: due date, percentage of completion, status (e.g., Not Started, Work in Progress and Completed), and the responsible and assigned parties.

The Department's Annual Financial Report (DHS AFR) was published on November 17, 2008 and consists of the Secretary's Message, Management's Discussion and Analysis, Financial Statements and Notes, an Independent Auditors' Report, Major Management Challenges, and other required information. The AFR was prepared pursuant to OMB Circular A-136, *Financial Reporting Requirements*.

**FEMA Mission Action Plan Performance Audit Report  
Exhibit I – Audit Findings Matrix**

The matrix below provides a detailed explanation of the issues noted by MAP and criteria:

		<b>MAP Findings</b>			
<b>Criteria</b>	<b>Entity-Level Controls</b>	<b>Financial Reporting</b>	<b>Property Management</b>	<b>Budgetary Accounting</b>	
Identification (of Root Cause)	<ul style="list-style-type: none"> <li>Root cause analysis is limited to the information in the MAP</li> </ul>	<ul style="list-style-type: none"> <li>Many root causes identified are symptoms of the underlying issues (e.g. “Quarterly GL close out process does not allow enough time to record transactions...”)                             <ul style="list-style-type: none"> <li>Root cause analysis is limited to the information in the MAP</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Root cause analysis is limited to the information in the MAP</li> </ul>	<ul style="list-style-type: none"> <li>Root cause analysis is limited to the information in the MAP</li> </ul>	
Development of MAP	<ul style="list-style-type: none"> <li>MAP milestones lack substance or a clear action plan</li> <li>Critical milestones are not distinguished from non-critical milestones</li> <li>There appears to be too much emphasis on FMFIA steps. FMFIA shouldn't be part of the solution, but rather the validation</li> </ul>	<ul style="list-style-type: none"> <li>The MAP does not address the need for restructuring, hiring skilled resources, and training. The primary root cause (i.e., lack of resources) is not given proper weight in the milestones.</li> <li>The MAP did not include milestones to remediate the reconciliation of intragovernmental transactions</li> <li>Key strategies appear to be no more than fixing the symptoms and not the root causes</li> <li>Milestones are not always clearly linked to root causes and financial statement assertions</li> <li>Some milestones appear disjointed. For example, milestone 1.3 provides instruction to perform a procedure in accordance with the SOP, with a due date of 1/31/09. However, milestone 1.2 to finalize and disseminate the related SOP is not due until 6/30/09.</li> </ul>	<ul style="list-style-type: none"> <li>The MAP did not identify “existence” as a key financial statement assertion</li> <li>Interdependencies or milestones to address the new property system are not included</li> <li>Timing of certain milestones do not appear feasible (e.g. some milestones should occur <i>after</i> other milestones, rather than before)</li> </ul>	<ul style="list-style-type: none"> <li>The MAP did not identify “existence” and “obligations” as key financial statement assertions</li> <li>Milestones appear disjointed or duplicative. In some cases, similar milestones are listed twice with different due dates</li> </ul>	

**FEMA Mission Action Plan Performance Audit Report  
Exhibit I – Audit Findings Matrix**

<b>Criteria</b>	<b>Entity-Level Controls</b>	<b>Financial Reporting</b>	<b>Property Management</b>	<b>Budgetary Accounting</b>
<p>Accountability of MAP</p>	<ul style="list-style-type: none"> <li>Accountability appears to be contingent on the Internal Control Board. However, the Board is not yet formed with a charter.</li> </ul>	<p><b>No Issues Identified</b></p>	<p><b>No Issues Identified</b></p>	<p><b>No Issues Identified</b></p>
<p>Verification &amp; Validation (V&amp;V)</p>	<ul style="list-style-type: none"> <li>Specific V&amp;V steps are not developed</li> </ul>	<ul style="list-style-type: none"> <li>V&amp;V steps identified do not include verification of items that indicate timely, accurate, and complete operation of financial reporting over time</li> <li>V&amp;V steps are not action items, but rather a list of evidence that is available for review</li> <li>V&amp;V steps do not include due dates with accountability assigned</li> </ul>	<ul style="list-style-type: none"> <li>Detailed V&amp;V steps do not include due dates with accountability assigned</li> </ul>	<ul style="list-style-type: none"> <li>Detailed V&amp;V steps do not include due dates with accountability assigned</li> </ul>





**FEMA**

Ms. Anne Richards  
Assistant Inspector General for Audits  
245 Murray Drive, SW, Building 410  
Washington, DC 20538  
May 12, 2009

Dear Ms. Richards

Thank you for the opportunity to comment on the draft Office of the Inspector General's (OIG) Performance Audit Objectives Report on the Department of Homeland Security's 2009 Mission Action Plans (MAPs). In particular, I would like to respond to the findings and recommendations related to the MAPs prepared by the Federal Emergency Management Agency (FEMA).

As the report states the performance audit was performed using the FEMA provided MAPs dated January 21, 2009. FEMA continues to refine the MAPs to identify and address the root causes that are causing the internal control deficiencies, taking action steps that address the identified issues, developing measurable milestones, and implementing procedures to successfully verify and validate correction of the identified deficiencies.

The OIG report recommends "FEMA form the Internal Control Board of senior executives, and establish the Board's Charter". Also, the report recommends FEMA conduct a "more extensive root cause analysis and development of associated corrective actions, milestones, performance metrics and verification processes". FEMA has identified and further developed actions to include:

- Draft Internal Control Board (ICB) documents (i.e., charter, authorization letter, letter of commitment) have been reviewed and updated for approval by the incoming FEMA Administrator. In addition, a briefing on the vision of the ICB has been prepared and will be presented to the incoming FEMA Administrator.
- FEMA has brought on new leadership within the Office of the Chief Financial Officer (OCFO) including a new Chief Financial Officer and Deputy Chief Financial Officer who started in September 2008 and December 2008, respectively. In addition, FEMA has filled the vacancy for the Risk Management and Compliance, Director Position within the OCFO.

The OIG report identifies the primary root cause of the control weakness as “lack of a sufficient number of skilled accounting and financial reporting resources”. Further the report recommends FEMA “improve the MAPs to include more detailed, specific and measurable action steps and assignments to individuals”. FEMA has identified and further developed actions to include:

- Individual assignments of roles and responsibilities and developing SOPs for key assignments in order to formalize the processes and foster knowledge sharing.
- Reorganized the Financial Management Division to address span of control issues and reassigned resources to develop financial reporting processes at the FEMA Finance Center.
- Two additional staff with knowledge of FEMA’s National Flood Insurance Program has been selected and will start May 26, 2009 and June 8, 2009.
- Developed a proposal to elevate Mission Assignments to a separate program area to include the proper resources to accomplish intra-governmental reconciliations and close-out.
- Developing an Accounts Payable model and SOP to accurately estimate, record and validate quarterly accounts payable liabilities.
- Formalized the Grant Accrual SOP and has assigned the roles and responsibilities to appropriate staff to include levels of supervisory reviews.
- Currently exploring additional strategies with contractor support to further enhance the controls around segregation of duties.

The OIG report states “FEMA has not adequately monitored the status of its mission assignments.” In addition the report identified FEMA “could not provide all supporting documentation for a sample of non-mission assignment, non-adequately monitored the status of its mission assignment obligations nor ensured the timely de-obligation of mission assignments.” FEMA has identified and further developed actions to include:

- Proposal to elevate Mission Assignments to a separate program area to include the proper resources to accomplish intra-governmental reconciliations and close-out.
- In the process of developing UDO verification & validation processes to include identifying UDO balances to be de-obligated. FEMA OCFO issued a directive to perform quarterly UDO reviews and is currently developing a UDO Manual to detail FEMA’s roles and responsibilities in reporting/closing these balances.

The OIG report states “FEMA has not maintained records of actual costs for its internal use software in development.” In addition FEMA “does not have procedures in place to periodically assess the reliability of its internal use software estimates.” FEMA has performed the following to address this control deficiency:

- FEMA’s Financial Management , Information Technology and Program Offices have partnered to identify all IT systems meeting the requirements of internal use software capitalization and have broken down the systems into the following categories: (1) in development; (2) in production between 1 – 3 years; and (3) in production over 3 years.

- Identified and listed all systems and received a completeness assertion from the system owners.
- Held joint OCFO/OIT work shops to provide requirements to identify and book actual costs for its internal use software.
- Developing an internal uses software directive/manual to detail roles and responsibilities in identifying, tracking and recording software cost.

In closing, FEMA takes the OIG's findings and recommendations seriously and is committed to establishing a strong system of internal controls which includes up-to-date policies, procedures and processes.

Sincerely,

*for Eric C. Cabrer*  
Norman Dong  
Chief Financial Officer

cc: Michael Wetklow, DHS  
Faith Kim, KPMG  
Terrell Tindull, OIG

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