

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

Federal Emergency Management Agency's Management Letter for FY 2011 DHS Consolidated Financial Statements Audit





Homeland
Security

March 7, 2012

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.

This report presents the Federal Emergency Management Agency's Management Letter for FY 2011 DHS Consolidated Financial Statements Audit. It contains observations related to internal controls that were not required to be reported in the financial statements audit report. The independent public accounting firm KPMG LLP (KPMG) performed the integrated audit of DHS' FY 2011 financial statements and internal control over financial reporting and prepared this management letter. KPMG is responsible for the attached management letter dated February 3, 2012 and the conclusions expressed in it. We do not express opinions on DHS' financial statements or internal control or provide conclusions on compliance with laws and regulations.

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 "Anne L. Richards".

Anne L. Richards
Assistant Inspector General for Audits



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Suite 12000
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February 3, 2012

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

Ladies and Gentlemen:

We have audited the balance sheet of the U.S. Department of Homeland Security (DHS or Department) as of September 30, 2011 and the related statement of custodial activity for the year then ended (referred to herein as the “fiscal year (FY) 2011 financial statements”). The objective of our audit was to express an opinion on the fair presentation of these financial statements. We were also engaged to examine the Department’s internal control over financial reporting of the balance sheet as of September 30, 2011, and statement of custodial activity for the year then ended, based on the criteria established in Office of Management and Budget, Circular No. A-123, *Management’s Responsibility for Internal Control*, Appendix A.

Our *Independent Auditors’ Report* issued on November 11, 2011, describes a limitation on the scope of our audit that prevented us from performing all procedures necessary to express an unqualified opinion on DHS’ FY 2011 financial statements and internal control over financial reporting. In addition, the FY 2011 DHS *Secretary’s Assurance Statement* states that the Department was unable to provide assurance that internal control over financial reporting was operating effectively at September 30, 2011. We have not considered internal control since the date of our *Independent Auditors’ Report*.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. In accordance with *Government Auditing Standards*, our *Independent Auditors’ Report*, referred to in the paragraph above, included internal control deficiencies identified during our audit, that individually, or in aggregate, represented a material weakness or a significant deficiency.

The Federal Emergency Management Agency (FEMA) is a component of DHS. We noted certain matters, related to FEMA that are summarized in the Table of Financial Management Comments on the following pages, involving internal control and other operational matters that are less severe than a material weakness or a significant deficiency, and consequently are reported separately to the Office of Inspector General (OIG) and FEMA management in this letter. 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. The disposition of each internal control deficiency identified during our FY 2011 audit – as either reported in our *Independent Auditors’ Report*, or herein – is presented in Appendix A. The



status of internal control deficiencies identified during our FY 2010 audit is presented in Appendix B. Our findings related to information technology systems security have been presented in a separate letter to the OIG and the FEMA Chief Financial Officer and Chief Information Officer.

We would be pleased to discuss these comments and recommendations with you at any time. This report is intended for the information and use of DHS' and FEMA's management, the DHS Office of Inspector General, the U.S. Office of Management and Budget, the U.S. Congress, and the Government Accountability Office, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

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FMC 11-01 – Deficiencies in Development and Application of Policies Related to the Non-Grant, Non-Mission Assignment, Non-System-Generated Accounts Payable Accrual (NFR No. 11-02)

Our review of the accounts payable accrual model methodology as of December 31, 2010, revealed that an accrual is not generated for the following fund codes and Budget Object Codes (BOC), and the Intergovernmental Accrual Process does not specifically address the accrual process for the following funds:

- Fund codes 79, 87-89, 8C, 9B, 9C (all related to limited and no-year funds for the Chemical Stockpile Emergency Preparedness Program)
- Fund code H7 (related to State and Local Programs Fund - Public Safety Interoperable Communications)
- BOC 2503 (Delegation of Authority – Disaster Unemployment Assistance) and 2504 (Delegation of Authority – Crisis Counseling Assistance).

Recommendation:

We recommend that Federal Emergency Management Agency (FEMA) incorporate an assessment of these BOCs and funds into the quarterly accounts payable accrual process and document the assessment.

FMC 11-02 – Inability to Closeout Assistance to Firefighter Grants (NFR No. 11-04)

During our testwork performed over Assistance to Firefighter Grants (AFG), we noted that system closeout issues continue to exist in fiscal year (FY) 2011. Per discussion with Grant Programs Directorate personnel, the system problems with the implementation of the SF 425 continued throughout most of FY 2011. Although a manual process was implemented in June 2011, at that time, only grant awards from FY 2002 through FY 2004 were being closed out manually. Continued issues prevented closeouts related to grant awards from FY 2005 through FY 2009. (The award process for AFG takes place during the fourth quarter of the fiscal year; as such, FY 2010 AFG do not require closeout in the current fiscal year.)

Recommendations:

We recommend that FEMA:

- Implement planned modifications to the AFG system that are designed to enable the closeout of AFG awards from FY 2007 – FY 2010.
- Utilize the established manual closeout process for AFG awards prior to FY 2007 and for subsequent awards until the system capability exists to complete closeouts.

FMC 11-03 – Deficiencies in Development of Mission Assignment Policies and Procedures (NFR No. FEMA 11-05)

Under Standard Operating Procedures (SOP) Number 2600-007, *Financial Reporting of Mission Assignments* dated March 17, 2011, FEMA requires mission assignment-related Undelivered Order (UDO) balances to be validated annually as of June 30th of each year. In the event an Other Federal Agency (OFA) is non-responsive to the validation request, FEMA notifies the OFA that the close-out process will be initiated and funds will be de-obligated unless sufficient supporting documentation is received. FEMA, however, does not designate a timeline as to when de-obligation will take place to ensure the mission assignment (MA) UDO balance is validated or

closed out prior to year-end. The policy calls for UDOs to be reviewed but not validated at other times throughout the year.

Recommendation:

We recommend that FEMA designate, as part of its annual validation process, a timeline as to when de-obligation will take place when the OFA is non-responsive to ensure the MA UDO balance is validated or closed out prior to year-end.

FMC 11-04 – Lack of Certain Documentation Related to Compliance with the Improper Payments Elimination and Recovery Act of 2010 (NFR No. FEMA 11-08)

In FY 2011, we reviewed FEMA's risk assessment approach and test plan for each of the programs that were determined to be of significant risk for improper payments. Based on our review, we determined that FEMA used a multi-year sampling approach for the Public Assistance Grant Program, the Homeland Security Grant Program, and the Transit Security Grant Program given the large size of the programs. Because this approach was used, FEMA was unable to extrapolate the sample results over the entire population and could not provide results within the required 2.5% precision level. For this approach to be considered compliant with the Improper Payments Elimination and Recovery Act of 2010 and Office of Management and Budget (OMB) Circular No. A-123, FEMA must obtain approval from OMB. FEMA did not obtain official written approval until September 23, 2011, after testing had begun.

The plan approved on September 23, 2011 is a multi-year testing plan that is effective for the Homeland Security Grant Program and the Transit Security Grant Program through FY 2013 and for the Public Assistance Grant Program through FY 2014.

Recommendation:

No recommendation is necessary as FEMA management implemented corrective action during the fiscal year.

FMC 11-05 – Inability to Link Systems to Significant Grant Programs (NFR No. FEMA 11-11)

We requested that FEMA provide an analysis to demonstrate the amount of UDOs flowing through each grant system during FY 2011. We asked that the analysis include Catalog of Federal Domestic Assistance Number, Grant Program, Responsible Directorate, Award System, Monitoring System, Grant Identifier, Obligation System, Obligation Amount, Payment System, Payment Amount, and the UDO reconciled balance.

We noted that a spreadsheet was created based on our request; however, FEMA was unable to identify the appropriate monitoring system for each grant program. Additionally, FEMA does not maintain a database that links grant systems to significant grant programs to facilitate the assessment of system-based controls over obligations and payments related to these programs.

Recommendations:

We recommend that FEMA:

- Develop and implement a monitoring control to ensure that the currently developed spreadsheet is updated timely when changes occur.

- Dedicate the resources to implement a process to monitor which grant programs are flowing through which grant systems in order to facilitate the assessment of system-based controls over obligations and payments related to these programs.

FMC 11-06 – Deficiencies in the Preparation and Review of the Government Accountability Office (GAO) Financial Audit Manual 2010 – Checklist for Federal Accounting (NFR No. FEMA 11-12)

Upon independent review of FEMA’s initial GAO Financial Audit Manual 2010 – Checklist for Federal Accounting (Checklist) as of March 31, 2011, we determined FEMA did not properly complete all questions in the Checklist, as follows:

- Responses to 13 questions were not consistent with the accounting policies and operations currently implemented at FEMA.
- Various explanations provided in the Checklist required more information per the Checklist instructions.
- Four questions were answered when the index indicated “N/A,” and per the Checklist instructions, only items considered applicable in the index should be answered.

Although the Checklist was reviewed for completeness, accuracy, and validity and approved by FEMA management in accordance with the FY 2011 DHS Office of Financial Management (OFM) *Component Requirements Guide for Financial Reporting*, inconsistencies in the Checklist noted were not identified by the review.

Recommendation:

We recommend that FEMA develop and implement SOPs over the annual preparation and review of the Checklist.

FMC 11-07 – Inaccuracy of Claims’ Loss Reserves at Selected Insurance Companies that Participate in FEMA’s National Flood Insurance Program (NFIP) (NFR No. FEMA 11-14)

We selected nine insurance companies and tested a sample of 65 loss reserves reported by these companies as of March 31, 2011. During this testing, we noted the following errors:

- For five sample items, the loss reserve recorded in the insurance company NFIP claims system was not updated appropriately to reflect additional adjustor reports and/or claim payments, causing the reserves to be misstated as of March 31, 2011.
- For three sample items, the claim was not closed in a timely manner which overstated the reserve balance as of March 31, 2011.
- For one sample item, the claim was closed without payment and then reopened in order to pay adjustor fees. However, the claim was not re-closed after the fees were paid, which in turn overstated reserves.

Additionally, we selected nine insurance companies and tested a sample of 65 loss reserves reported by these companies as of August 31, 2011. During this testing, we noted the following errors:

- For one sample item, the reserve was not updated to accurately reflect receipt of the preliminary report and the payment of an advance, which caused the reserve to be understated as of August 31, 2011.

- For one sample item, the loss reserve recorded in the insurance company NFIP claims system was not updated appropriately to reflect the final report, causing the reserves to be overstated as of August 31, 2011.

Recommendations:

We recommend that FEMA:

- Follow-up with each of the insurance companies with exception to determine that appropriate corrective action has been implemented to address the exceptions noted.
- Provide increased oversight to ensure the specific and consistent documentation of the established loss reserve and subsequent adjustment to the loss reserve per claim at the insurance companies participating in the NFIP is maintained and that current loss reserve information is communicated to the third-party service provider timely.

FMC 11-08 – Internal Control Deficiencies over Claims Paid at Selected Insurance Companies that Participate in FEMA’s NFIP (NFR No. FEMA 11-15)

We selected nine insurance companies and tested a sample of 270 claim payments across those companies covering the period October 1, 2010 to March 31, 2011. During this testing, we noted the following errors:

- For two sample items, the claim payment was not recorded in the correct fiscal year.
- For eight sample items, the loss reserve related to the claim transaction was not updated properly to reflect claim payments or additional adjustor reports, causing reserves to be misstated.
- For one sample item, the deductible was not properly applied to a contents claim.
- For two sample items, the claim was not properly closed after the policy was closed and rewritten.
- For one sample item, the claim payment made to the insured did not match the total claim payment on the final report, causing the insured to be overpaid.

Additionally, we tested a sample of 135 claim payments across the nine insurance companies covering the period April 1, 2011 to June 30, 2011. During this testing, we noted the following errors:

- For three sample items, the claim payment made to the insured did not match the total claim payment on the final report, causing the insured party to be overpaid or underpaid.

Recommendations:

We recommend that FEMA:

- Follow-up with each of the insurance companies with exceptions to determine whether appropriate corrective actions have been implemented to address the exceptions noted.
- Provide increased oversight to insurance companies participating in the NFIP to ensure claims files are being processed and reviewed in accordance with NFIP guidelines before approval and issuance of claim payments and to ensure the specific and consistent establishment and reporting of loss reserves and subsequent adjustments to the loss reserves.

FMC 11-09 – Deficiencies in the Monthly Spend Plan Reconciliation Preparation Process (NFR No. FEMA 11-17)

Based on our FY 2011 walkthrough procedures performed over the Monthly Spend Plan Reconciliation preparation process, we noted the following deficiencies in the design:

- A lack of oversight exists over the contractors who extract the actual spending data from the general ledger (GL). It is uncertain whether they are pulling the correct information as the reviewer does not perform necessary oversight of the procedures taken by the contractors to extract the data from the GL.
- The Budget Manual, which was issued during FY 2011, describes that when the review of the reconciliation is performed, the Office of the Chief Financial Officer (OCFO) and the FEMA program offices address the issue of how the funds are allocated. We note that the Budget Manual does not indicate the procedures that need to be taken to reconcile the actual committed, obligated, and expended amounts to the appropriate amounts per the GL.
- No clear documentation evidences the Monthly Spend Plan Reconciliations or the review thereof. Management was not able to provide support for reconciliations performed, or any evidence of their final review other than the posting of them on the FEMA intranet.

Recommendations:

We recommend that FEMA revise SOPs, including appropriate internal controls, over the preparation and review of the Monthly Spend Plan Reconciliation to ensure that:

- Actions performed by contractors are properly monitored.
- A consistent process is established to reconcile information in the Monthly Spend Plan Reconciliation to the GL.
- Proper review of the Monthly Spend Plan Reconciliation is performed prior to its posting on the FEMA intranet.

FMC 11-10 – Deficiencies Identified in the General Ledger Chart of Accounts and Transaction Codes (NFR No. FEMA 11-18)

Based on our review of FEMA's FY 2011 general ledger chart of accounts as of June 30, 2011, we noted six accounts that were included in the GL chart of accounts and were active, but they were not included in the 2011 United States Government Standard General Ledger (USSGL) chart of accounts.

Based on our testwork performed over a sample of 32 transaction code (T-code) numbers and 248 total T-code transactions as of June 30, 2011, we noted that 9 of the 248 total T-code transactions selected for testwork were not in compliance with the USSGL.

Recommendations:

We recommend that FEMA:

- Perform additional research to determine how to de-activate the identified accounts through the general ledger. If prior year accounts are necessary to post beginning balances, develop and implement procedures to ensure accounts are deactivated timely once beginning balances are recorded.
- Develop a comprehensive T-code crosswalk to determine whether general ledger T-codes are in compliance with the USSGL and why some T-codes deviate from the USSGL.

FMC 11-11 – Improvements Needed in Review and Recording of Year-end Mission Assignment Accrual (NFR No. FEMA 11-19)

FEMA attempted to perform a validation of the estimated June 30, 2011 MA accounts payable accrual to determine the accuracy and reliability of the estimate. However, during our review of the validation, we noted that the validation was not effective as FEMA compared all reimbursement requests received in the fourth quarter of FY 2011 to the accrual balance as of June 30, 2011. For comparison purposes, the reimbursement requests received in the fourth quarter of FY 2011 used to validate the accrual should only include the requests received for services and/or expenses incurred prior to July 1, 2011.

In addition, FEMA does not review and analyze the accrual by OFA prior to recording the accrual to ensure that validity and reasonableness of each accrual.

Recommendations:

We recommend that FEMA:

- Develop and implement procedures to compare the MA accounts payable accrual estimates to the actual expenses incurred, communicate with OFAs on discrepancies noted to make estimation improvements in the future, and reassess the process to develop the estimate as necessary. The verification and validation should be documented and properly reviewed.
- Thoroughly review MA accounts payable accrual supporting documentation for reasonableness prior to recording amounts reported by OFAs, and exercise timely communication with OFAs on any discrepancies noted to prevent an intragovernmental reconciliation problem.

FMC 11-12 – Improvements Needed in Management’s Review of Grant Data and Automated Reconciliations in Grant Accrual Models (NFR No. FEMA 11-22)

Our review of Legacy FEMA’s implemented grant accrual process (generally for disaster and non-preparedness grants) revealed the following deficiencies within the process as of June 30, 2011:

- The legacy FEMA grant accrual model tab did not properly include PIN D3512 in the calculation of the accrual. As a result, the legacy FEMA grant accrual advance was understated by \$1,159,221. As the exclusion was not identified in the review of the inputs and outputs of the model, the controls were not operating effectively.
- A discrepancy between the Ending Cash on Hand (ECOH) reported in the accrual model data and the ECOH per the SF-272 SmartLink report was identified. A one-cell shift in the ECOH column in the accrual model data caused this discrepancy. Although we determined the ECOH column does not feed into any model inputs or outputs, and there was no substantial effect related to the shift of the column, a control-based exception was recognized for insufficient review and approval of the inputs and outputs of the model.
- Variances between estimated and actual advances and liabilities that exceed the acceptable variance range (AVR) thresholds established by FEMA policies were not adequately addressed. The advance variances at December 31, 2010 and March 31, 2011 were \$35 million and \$30.7 million respectively. Additionally, liability variances at September 30, 2010, December 31, 2010, and March 31, 2011, were \$143.4 million, \$91.5 million, and

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\$64.6 million respectively. These discrepancies fell outside the target error rate for the advance and liability estimates for the legacy FEMA grant accrual. Furthermore, FEMA noted that management review of the AVR is only completed annually, and it is a process that continues to be under review.

Our review of Legacy FEMA's implemented grant accrual process revealed the following deficiencies within the process as of September 30, 2011:

- A discrepancy between the ECOH reported in the accrual model data and the ECOH per the SF-272 SmartLink report was identified, similar to the issue noted as of June 30, 2011.
- Variances between estimated and actual advances and liabilities that exceed the AVR thresholds were not adequately addressed. The advance variance at June 30, 2011 was \$46.7 million, which exceeded the AVR.

Our review of FEMA's Grants and Training (G&T) grant accrual process revealed the following deficiency within the process as of June 30, 2011:

- The Journal Voucher (JV) to record the liability allocation for fund code T8 was initially recorded for the wrong amount of \$72.6 million. The entry was subsequently reversed and FEMA then posted the correct balance in a new JV. As the review and approval of the original JV was not properly performed, the control was not operating effectively.

Our review of FEMA's G&T grant accrual process revealed the following deficiencies within the process as of September 30, 2011:

- The September 30, 2011 grant accrual returned a \$3.5 million advance and \$50.9 million liability for fund T6. As fund T6 (State and Local Programs) was cancelled at September 30, 2011, FEMA reallocated the advance and liability from fund T6 to funds T0, T7, T8, T9, and E0. We determined that the reallocation of advances (\$294,604) and liabilities (\$4.3 million) related to fund T6 (State and Local Programs) to fund E0 (Emergency Management Performance Grants) was not proper as the funds are not used for the same purpose. As the reallocation was not properly reviewed, the control was not operating effectively.

At June 30, 2011 and September 30, 2011, FEMA recorded all grant related payables in USSGL account 2110. Per the USSGL T-code B402 which states "Record USSGL account 2190 for grants payable", FEMA is not in compliance with USSGL.

Recommendations:

We recommend that FEMA:

- Conduct training to ensure that the individuals responsible for preparing and reviewing the grant accrual clearly understand their roles and responsibilities for the preparation and review of the grant accruals.
- Review and conduct follow-up related to unusual advance and liabilities balances reported by grantees.
- Review and resolve large variances between estimated and actual advances and liabilities.
- Conduct training to ensure grantees understand the SF-425 form and complete it properly.
- Record grant related payables in USSGL account 2190.

FMC 11-13 – Issues Identified in Journal Voucher (JV) Testwork (NFR No. FEMA 11-23)

Journal Voucher Population Completeness as of March 31, 2011:

To determine the completeness of the JV population as of March 31, 2011, we obtained a roll-forward of all financial activity from October 1, 2010 (period 00) to March 31, 2011 (period 06) from FEMA.

Based on this testwork, we noted two of thirteen of March 31, 2011 Treasury Information Executive Repository (TIER) adjustments were not fully researched prior to submitting them into the DHS TIER repository.

Journal Voucher Population Completeness as of June 30, 2011:

To determine the completeness of the JV population as of June 30, 2011 we obtained a roll-forward of all financial activity from March 31, 2011 (period 06) to June 30, 2011 (period 09) from FEMA.

Based on this testwork, we noted two of fifteen June 30, 2011 TIER adjustments were not fully researched prior to submitting them into the DHS TIER repository.

Journal Voucher Population Completeness as of September 30, 2011:

To determine the completeness of the JV population as of September 30, 2011, we obtained a roll-forward of all financial activity from June 30, 2011 (period 09) to September 30, 2011 (period 12) from FEMA.

Based on this testwork, we noted three of seven September 30, 2011 TIER adjustments were not fully researched prior to submitting them into the DHS TIER repository.

Journal Voucher Testing as of March 31, 2011:

Based on our JV dual purpose testwork as of March 31, 2011, we noted that 1 of 52 JV sample items did not reflect the underlying events and transactions.

Based on our control testwork as of March 31, 2011, we noted that 13 of 52 JV were corrections of previous JVs that should not have been necessary if the original entry was properly reviewed and approved to determine if the attribute, fiscal year, and GL accounts were proper and agreed from the hard copy Microsoft Excel template to the GL entry.

Journal Voucher Testing as of June 30, 2011:

Based on our JV dual purpose testwork as of June 30, 2011, we noted that for 2 of 38 JV sample items the original entry was posted in December 2010 to the incorrect budget fiscal year. We determined the correcting entry was not posted until June 2011, which we do not consider to be timely corrections.

Based on our control testwork as of June 30, 2011, we noted that 3 of 38 JV were corrections of previous JVs that should not have been necessary if the original entry was properly reviewed and approved to determine if the attribute, fiscal year, and GL accounts were proper and agreed from the hard copy Microsoft Excel template to the GL entry.

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Journal Voucher Testing as of September 30, 2011:

Based on our JV dual purpose testwork as of September 30, 2011, we noted that 1 of 54 JV sample items did not reflect the underlying events and transactions.

Based on our control testwork as of September 30, 2011, we note 3 of 54 JV were corrections of previous JVs that should not have been necessary if the original entry was properly reviewed and approved to determine if the attribute, fiscal year, and GL accounts were proper and agreed from the hard copy Microsoft Excel template to the GL entry.

Federal/Intra-agency/Non-Federal (F/I/N) Attributes:

To address the incorrect federal/intra-agency/non federal (F/I/N) attributes within the GL for purposes of the TIER submissions throughout FY 2011, FEMA adjusted intra-agency ('I') amounts and recorded them in selected G&T funds in TIER. For example, we observed that FEMA calculated the adjustment amounts based on the difference between USSGL elimination pairs (e.g., USSGL accounts 1410 – Advances and Prepayments and 2310 – Liability for Advances and Prepayments), increased/decreased the intra-agency amount for one side of the elimination pair, and applied the adjustment to a selected G&T fund. No documentation existed to support the reasonableness of these adjustments.

Temporary Housing Unit (THU) Transactions:

FEMA recorded several entries throughout the year based on improper guidance provided by DHS OFM. FEMA reversed correct entries and posted improper entries based on DHS OFM guidance, which lead to an abnormally large number of JVs relating to THUs. FEMA corrected these entries by year-end.

Recommendations:

We recommend that FEMA:

- Dedicate sufficient resources to ensure JVs are thoroughly researched, reviewed, and approved prior to entering them in the general ledger or adjusting the TIER files.
- Dedicate sufficient resources to ensure that all F/I/N attributes are reviewed and corrected in a timely manner.
- Work with DHS OFM to develop a formal policy/procedure to resolve disagreements with DHS OFM relating to proper accounting treatments.

FMC 11-14 – Compliance with the Prompt Payment Act (NFR No. FEMA 11-24)

Based on our testwork performed over a sample of 85 payments made during FY 2011, we noted one Prompt Payment Act exception. For this transaction, the goods were received on the same day as the invoice. However, FEMA did not make the vendor payment within the required time period (within 30 days of the receipt of the invoice) or pay the required interest penalty for this late payment.

Recommendations:

We recommend that FEMA:

- Develop a monitoring control to ensure adherence to existing prompt payment policies and procedures for all applicable payment activities.
- Provide additional training to ensure invoices are entered into the general ledger timely and the payment due date is entered correctly.

FMC 11-15 – Deficiencies in Verification and Collection of Performance Measurement Data for the Annual Financial Report’s (AFR) Management’s Discussion and Analysis (NFR No. FEMA 11-26)

In the FY 2011 DHS AFR, information for four performance measurements was provided from FEMA’s program offices. We noted the following conditions for two of these performance measurements:

- “Percent of time that critical communications for response operations are established within 12 hours” - A complete population of the supporting documentation could not be provided. From the few items that were provided, we noted that the supporting documentation could not be used to objectively verify the performance measurement percentage in the AFR.
- “Percent of orders for required life-sustaining commodities (meals, water, tarps, plastic sheeting, cots, blankets, and generators) and key operational resources delivered by the agreed upon date” - The incorrect performance measurement percentage (96%) was submitted to the Office of Policy and Program Analysis, which was the number submitted for the AFR. This incorrect percentage did not match the underlying data provided by the program, which supported a percentage of 93%.

Recommendations:

We recommend that FEMA:

- Develop and implement a process to ensure that performance measures can be objectively tracked, calculated, and verified.
- Develop and implement a review process to validate the data and the performance measurement calculations prior to submission to DHS.

FMC 11-16 – Deficiencies in the Legacy FEMA Grant Accrual Methodology (NFR No. FEMA 11-27)

During the preparation of the June 30, 2011 legacy FEMA grant accrual, FEMA determined it appropriate to exclude BOC 4310, Educational Stipends, from the grant accrual model data extraction. However, FEMA did not properly update its SOP to note the exclusion of BOC 4130 as of June 30, 2011. A new SOP was put in place in September 2011.

Recommendation:

No recommendation is necessary as FEMA remediated the condition by September 30, 2011.

FMC 11-17 – Deficiencies over the NFIP Treasury Information Executive Repository JV Adjustments (NFR No. FEMA 11-28)

In conjunction with our testwork of FEMA’s JVs to record NFIP activity as of September 30, 2011, and review of the FY 2011 DHS AFR, we noted the following:

- FEMA did not include USSGL account 1190, in the amount of \$33.1 million, in the calculation for the budgetary entry to reconcile budgetary cash to proprietary cash. The exclusion of this account in the calculation is inappropriate, as account 1190 should be included to ensure budgetary cash balances with proprietary cash.
- FEMA calculated its budget entries related to contractor-submitted expenses based on proprietary entries which are estimated by the third party service provider. FEMA used the entries to post the correct budgetary entries to the GL. Budgetary entries are automatically calculated and recorded for all other expenses not submitted by a contractor. FEMA was

unable to explain a \$682.7 million difference between proprietary expenses and budgetary expenses.

Recommendations:

We recommend that FEMA:

- Review, update and reissue SOPs for the recording of NFIP financial statement information into the FEMA GL to include USSGL account 1190 in the calculation for the budgetary entry to reconcile budgetary cash to proprietary cash.
- Develop, document, and implement a method to identify differences between proprietary and budgetary accounts in 70X4236 and assess if the differences identified are reasonable.

FMC 11-18 – Lack of Communication Regarding the Existence of the DHS Office of Inspector General Fraud Hotline (NFR No. FEMA 11-29)

In order to test the operating effectiveness of the DHS OIG Hotline at FEMA, we inquired of two personnel within the Financial Statements and Reporting Branch and one person in the Risk Management Branch under the OCFO. None of them were aware of the existence of the hotline or its purpose.

Recommendation:

We recommend that FEMA management improve communications to their employees regarding the existence of the DHS OIG Hotline, its importance, and the situations in which the hotline should be used.

Federal Emergency Management Agency
 Crosswalk - Financial Management Comments to Active NFRs
 September 30, 2011

NFR No.	Description	Disposition ¹			FMC No.
		MW	SD	NC	
11-01	Ineffective Controls over Processing Mission Assignments (MAs)	E			
11-02	Deficiencies in Development and Application of Policies Related to the Non-Grant, Non-MA, Non-System-Generated Accounts Payable Accrual				11-01
11-03	Non-Compliance with 5 CFR Part 2638 and 5 CFR Part 2638 Related to Ethical Requirements		F		
11-04	Inability to Closeout Assistance to Firefighter Grants (AFG)				11-02
11-05	Deficiencies in Development of MA Policies and Procedures				11-03
11-06	Ineffective Controls over Processing and Monitoring Obligations	E			
11-07	Incomplete Implementation of Controls over the Recording of Funding Transactions	E			
11-08	Lack of Certain Documentation Related to Compliance with the Improper Payments Elimination and Recovery Act of 2010				11-04
11-09	Ineffective Controls over Tracking Grants Eligible for Close-out		H		
11-10	Financial Monitoring of Grants by the Grant Programs Directorate		H	L	
11-11	Inability to Link Systems to Significant Grant Programs				11-05
11-12	Deficiencies in the Preparation and Review of the Government Accountability Office (GAO) Financial Audit Manual (FAM) 2010 – Checklist for Federal Accounting				11-06
11-13	Monitoring of Audit Findings in Accordance with Office of Management and Budget (OMB) Circular Nos. A-133 and A-50, and Related Compliance Matters		H	L	
11-14	Inaccuracy of Claims' Loss Reserves at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program (NFIP)				11-07
11-15	Internal Control Deficiencies over Claims Paid at Selected Insurance Companies that Participate in FEMA's NFIP				11-08
11-16	Lack of Formal Policies and Procedures in Various Areas		F		
11-17	Deficiencies in the Monthly Spend Plan Reconciliation Preparation Process				11-09
11-18	Deficiencies Identified in the General Ledger Chart of Accounts and Transaction Codes				11-10
11-19	Improvements Needed in Review and Recording of Year-end MA Accrual				11-11
11-20	Ineffective Controls over Grants Management		H		
11-21	Budgetary Accounting Issues Identified in Journal Voucher (JV) Testwork Through September 30, 2011	E			
11-22	Improvements Needed in Management's Review of Grant Data and Automated Reconciliations in Grant Accrual Models				11-12
11-23	Issues Identified in JV Testwork through September 30, 2011				11-13
11-24	Compliance with the Prompt Payment Act				11-14
11-25	Improper Processing and Untimely De-Obligation of Undelivered Orders (UDOs)	E			
11-26	Deficiencies in Verification and Collection of Performance Measurement Data for the Annual Financial Report's Management's Discussion and Analysis				11-15
11-27	Deficiencies in the Grant Accrual Methodology				11-16
11-28	Deficiencies over the NFIP Treasury Information Executive Repository (TIER) JV Adjustments				11-17

Federal Emergency Management Agency
Crosswalk - Financial Management Comments to Active NFRs
 September 30, 2011

NFR No.	Description	Disposition ¹			
		IAR			FMC
		MW	SD	NC	No.
11-29	Lack of communication regarding the existence of the Department of Homeland Security Office of Inspector General Fraud Hotline				11-18

¹Disposition Legend:

IAR	Independent Auditors' Report dated November 11, 2011
FMC	Financial Management Comment
MW	Contributed to a Material Weakness at the Department level when combined with the results of all other components
SD	Contributed to a Significant Deficiency at the Department level when combined with the results of all other components
NC	Contributed to Non-Compliance with laws, regulations, contracts, and grant agreements at the Department level when combined with the results of all other components
NFR	Notice of Finding and Recommendation

Cross-reference to the applicable sections of the IAR:

A	Financial Reporting
B	Information Technology Controls and System Functionality
C	Property, Plant, and Equipment
D	Environmental and Other Liabilities
E	Budgetary Accounting
F	Entity-Level Controls
G	Fund Balance with Treasury
H	Grants Management
I	Custodial Revenue and Drawback
J	<i>Federal Managers' Financial Integrity Act of 1982 (FMFIA)</i>
K	<i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i>
L	<i>Single Audit Act Amendments of 1996</i>
M	<i>Chief Financial Officers Act of 1990 (CFO Act)</i>
N	<i>Antideficiency Act, as amended (ADA)</i>
O	<i>Government Performance and Results Act of 1993 (GPRA)</i>

Federal Emergency Management Agency
Status of Prior Year NFRs
 September 30, 2011

NFR No.	Description	Disposition ¹	
		Closed ²	Repeat (2011 NFR No.)
10-01	Internal Control Deficiencies over Claims Paid at Selected Insurance Companies that Participate in FEMA's NFIP		FEMA 11-15
10-01a	Internal Control Deficiencies over Claims Paid at Selected Insurance Companies that Participate in FEMA's NFIP		FEMA 11-15
10-02	Inaccuracy of Claims' Loss Reserves at Selected Insurance Companies that Participate in FEMA's NFIP		FEMA 11-14
10-02a	Inaccuracy of Claims' Loss Reserves at Selected Write Your Own Insurance Companies that Participate in FEMA's NFIP		FEMA 11-14
10-03	Lack of Formal Policies and Procedures in Various Areas		FEMA 11-16
10-04	Non-Compliance with 5 CFR Part 2638 and 5 CFR Part 2638 Related to Ethical Requirements		FEMA 11-03
10-05	Internal Control Deficiencies Identified over Premiums Written at Selected Insurance Companies that Participate in FEMA's NFIP	X	
10-05a	Internal Control Deficiencies Identified over Premiums Written at Selected Insurance Companies that Participate in FEMA's NFIP	X	
10-06	Deficiencies in the Budget Execution Report Preparation Process		FEMA 11-17
10-07	Deficiencies in Development and Application of Policies Related to the Non-Grant, Non-MA, Non-System-Generated Accounts Payable Accrual		FEMA 11-02
10-08	Control Deficiencies and Underlying Data Deficiencies Related to the Non-Grant, Non-MA, Non-System-Generated Accounts Payable Accrual	X	
10-09	Deficiencies in the Preparation and Review of the GAO Financial Audit Manual FAM 2010 – Checklist for Federal Accounting		FEMA 11-12
10-10	Inherited Problems in Legacy Grants and Training's (G&T) General Ledger and Other Issues Noted in the TIER to General Ledger Reconciliation as of June 30, 2010		FEMA 11-23
10-11	Control Deficiencies Noted in the Financial Reporting Environment as of March 31, 2010	X	
10-12	Insufficient Office of the Chief Financial Officer Review of FEMA's Legal Liability and Related Disclosure	X	
10-13	Deficiencies Identified in the General Ledger Chart of Accounts and Transaction Codes		FEMA 11-18
10-14	Ineffective Controls over Processing Obligations		FEMA 11-06
10-15	Deficiencies in Development of MA Policies and Procedures		FEMA 11-05
10-16	Ineffective Controls over Processing and Monitoring MAs		FEMA 11-01 FEMA 11-01a
10-17	Improvements Needed in Review and Recording of Year-End MA Accrual		FEMA 11-19
10-18	Financial Monitoring of Grants by the Former Office of G&T		FEMA 11-10
10-19	Ineffective Controls over Grants Management		FEMA 11-20
10-20	Lack of Certain Documentation Related to Compliance with the Improper Payments Information Act of 2002, as amended		FEMA 11-08
10-21	Budgetary Accounting Issues Identified JV Testwork through June 30, 2010		FEMA 11-21
10-21a	Budgetary Accounting Issues Identified JV Testwork from July 1, 2010 through September 30, 2010		FEMA 11-21
10-22	Inability to Link Systems to Significant Grant Programs		FEMA 11-11
10-23	Failure to Identify and Assess Accounting Policies / Practices Not In Accordance with Generally Accepted Accounting Principles	X	
10-24	Improvements Needed in Management's Review of Grant Data and Automated Reconciliations in Grant Accrual Models		FEMA 11-22
10-25	Deficiency Identified Related to the Preparation and Review of the Retrospective Reserve Analysis	X	
10-26	Issues Deficiencies Identified in JV Testwork through June 30, 2010		FEMA 11-23
10-26a	Issues Deficiencies Identified in JV Testwork from July 1, 2010 through September 30, 2010		FEMA 11-23
10-27	Monitoring of Audit Findings in Accordance with OMB Circular No. A-133 and No. A-50, and Related Compliance Matters		FEMA 11-13

Federal Emergency Management Agency
Status of Prior Year NFRs
 September 30, 2011

NFR No.	Description	Disposition ¹	
		Closed ²	Repeat (2011 NFR No.)
10-28	Lack of Supporting Documentation for Prompt Payment Sample Item		FEMA 11-24
10-29	Deficiency in the Methodology Used to Calculate the Non-Current Portion of the Insurance Liability Estimate	X	
10-30	Failure to Close Assistance to Firefighter Grants Timely		FEMA 11-04
10-31	Deficiencies over the NFIP TIER JV Adjustments		FEMA 11-28
10-32	Untimely De-Obligation of UDOs and Accounting for Public Assistance Grant Arbitration Cases in fiscal year 2010		FEMA 11-25

¹ KPMG was engaged to perform an audit over the DHS balance sheet and statement of custodial activity as of and for the year ended September 30, 2011, and was not engaged to perform an audit over the statement of net cost, statement of changes in net position, and statement of budgetary resources for the year ended September 30, 2011. In addition, we were engaged to follow-up on the status of all active NFRs that supported significant deficiencies reported in our FY 2010 *Independent Auditors' Report*.

² The scope of our audit was limited to follow-up on NFRs that supported a material weakness or significant deficiency as reported in our *Independent Auditors' Report*. All other NFRs, e.g., that described insignificant findings, and therefore presented to DHS management as observations for consideration, were considered closed.

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