

DEPARTMENT OF HOMELAND SECURITY
Office of Inspector General

**Independent Auditor's Report on
U.S. Coast Guard's FY 2008 Mission
Action Plans**



OIG-08-73

July 2008



Homeland Security

July 9, 2008

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 U.S. Coast Guard'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 audit according to generally accepted government auditing standards. KPMG is responsible for the attached independent auditor's report and the conclusions expressed in it.

The recommendations herein have been discussed in draft with those responsible for implementation. It is our hope that 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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February 22, 2008

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Mr. David Norquist
Chief Financial Officer
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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 U.S. Coast Guard (USCG). These deficiencies were identified by management and/or reported in the KPMG LLP (KPMG) Independent Auditors' Report included in the Department's fiscal year 2007 *Annual Financial Report* (FY 2007 Independent Auditors' Report).

This performance audit is the second in a series of four performance audits that the Department's Office of Inspector General (OIG) has engaged us to perform related to the Department's fiscal year 2008 MAPs for use in developing the Department's *Internal Controls Over Financial Reporting Playbook* (ICOFR Playbook). This performance audit was designed to meet the objectives identified in the Objectives, Scope, and Methodology section of this report. Our audit procedures were performed using draft MAPs provided to us between November 30, 2007 (FBwT and Entity Level Controls); and December 31, 2007 (IT integration). Interviews with DHS and USCG management and other testwork, was performed at various times through February 11, 2008, and our results reported herein are as of February 22, 2008.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAS). 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.

The performance audit did not constitute an audit of financial statements in accordance with GAS. KPMG was not engaged to, and did not, render an opinion on the Department's or USCG's internal controls over financial reporting or over financial management systems (for purposes of Office of Management and Budget Circular No. A-127, *Financial Management Systems*, July 23, 1993, 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 of Homeland Security (DHS or the Department) has identified weaknesses 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 compliance with the *Federal Managers' Financial Integrity Act* (FMFIA). Some deficiencies are material weaknesses identified by DHS' external financial statement auditor. Beginning in 2006, the Department launched 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 input to the ICOFR Playbook that documents the remediation actions planned for each control deficiency at the DHS component level. The MAP provides specific actions, timeframes, key milestones, assignment of responsibility, and the timing of corrective action validation.

The objective of this performance audit was to evaluate and report on the status of the detailed MAPs prepared by the United States Coast Guard (USCG) to correct internal control deficiencies over financial reporting. 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. Our audit was performed using specific criteria, to assess the process used by the USCG, and to evaluate the MAPs submitted by USCG to the DHS Chief Financial Officer to be included in the 2008 ICOFR Playbook.

The evaluation criteria were developed from a variety of sources including technical guidance published by OMB, the Government Accountability Office, and 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 are:

1. Identification (of the root cause) – Identification of the appropriate underlying problem or root cause of the internal control deficiency condition(s).
2. Development (of the MAP) – Clear action steps that address the root cause, with attainable and measurable milestones at an appropriate level of detail.
3. Accountability (for execution of the MAP) – The individual MAP owner is held responsible for its successful implementation, ensuring that milestones are effectively and efficiently achieved and that the validation phase is completed.
4. 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.

We noted that the USCG has prepared MAPs that address the control deficiencies over Fund Balance with Treasury (FBwT); Entity-Level Controls; and Information Technology (IT) Integration. However, we also noted areas where the MAPs could be improved. Specifically, we noted that a more thorough analysis should be performed to identify the underlying problem that created the control deficiencies. The root cause analysis should include consideration of the relevant detailed processes, human resources, and IT systems. The analysis should be expanded to consider interdependencies with other processes, and control deficiencies, and corrective actions should be cross-referenced with management assertions at the financial statement level to ensure that remediation is most effective.

In some cases, the MAPs did not include specific corrective actions, with incremental milestones that are attainable, measurable, and verifiable, over a realistic timeframe. The MAPs lacked an appropriate level of detail to enable independent analysis of the effectiveness of the MAPs in remediating root causes and providing users with insight on the period status of the MAP implementation.

The USCG lacks a comprehensive plan for verification and validation of MAP results that can be used to monitor and report results. Further, the verification and validation procedures that are included in the MAPs are not clearly linked to the Department's OMB Circular A-123 initiatives currently underway. We recommended that the USCG revise its MAPs to address these concerns. We are also recommending that the USCG develop an "end state" model for each defined process, including taking any future Department system baseline and support for financial reporting assertions, laws & regulations, and accounting standards into consideration. They should then compare the current processes with the identified control and process deficiencies and root causes to the "end state" model to develop specific, actionable, and measurable project plan steps linked to supporting the financial reporting assertions and complying with laws and regulations and accounting standards.

BACKGROUND

The Department of Homeland Security (DHS or the Department) and the United States Coast Guard (USCG) recognize that deficiencies in internal control over financial reporting exist. The internal control deficiencies are reported by DHS management in its annual Secretary's Assurance Statements, issued pursuant to Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*. The Secretary's Assurance Statement and the findings of the external auditor are reported in Department's fiscal year 2007 *Annual Financial Report* (AFR). The conditions causing the control weaknesses are diverse and complex. Many conditions are systemic, inherited with legacy financial processes and IT systems 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 control weaknesses very challenging. To meet this challenge, the Department's Secretary, Chief Financial Officer and financial management in the DHS components have adopted a comprehensive strategy to implement corrective actions beginning in fiscal year (FY) 2007 and continuing in FY 2008.

The DHS 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 corrective action plans. 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 *Mission Action Plan Guide, Financial Management Focus Areas Fiscal Year 2008* (MAP Guide). In accordance with the MAP Guide, the Department and the components developed Mission Action Plans (MAP) that describes the corrective actions to be implemented. The Department continued to utilize Electronic Program Management Office (ePMO), a Web-based software application, to manage the collection and reporting of MAP information.

The MAP Guide is applicable to all Department components, including USCG, and outlines the policies and procedures necessary to develop fiscal year 2008 Department MAPs. All components were required to submit MAPs, or MAP updates, for any new or existing internal control deficiencies over financial reporting, identified by management or the external auditors, for input into the fiscal year 2008 ICOFR Playbook.

To comply with Management Directive 1030, and the MAP Guide, the USCG adopted the *Financial Strategy for Transformation and Audit Readiness* (FSTAR) initiative. With the support of the Department, the USCG / FSTAR prepared three detailed MAPs for fiscal year 2008, related to the internal control deficiencies over FBwT; Entity-Level Controls; and IT Integration reported as or contributing to material weaknesses in the 2007 Independent Auditors' Report, which are summarized below:

- Financial Management and Entity Level Controls - USCG has not fully implemented an effective financial management organizational structure. It has significant weaknesses in financial management oversight that hindered its ability to prepare accurate, complete, and timely financial information.
- Fund Balance with Treasury - USCG did not have effective controls or supporting documentation that validated the accuracy of all of its FBwT balances, reconciliations, and clearing of suspense items. It did not have an effective process for accounting for suspense account transactions related to FBwT. The USCG was unable to provide validated military and civilian payroll data to support payroll transactions processed through the USCG's FBwT.

- Financial Reporting: IT Integration - USCG's financial reporting material weaknesses include control deficiencies related to IT Integration. The USCG has not developed and implemented an effective general ledger system. Its financial and mixed IT systems are not sufficiently integrated and are significantly noncompliant with the requirements of the *Federal Financial Management Improvement Act*.

Conditions existing at the USCG contributed to all Department material weaknesses in internal control over financial reporting, reported in FY2007 (seven in total). However, to focus its attention and resources, the USCG has limited its MAPs to the three weaknesses described above. MAPs to correct the remaining four material weaknesses, e.g., IT systems security, capital assets, liabilities, budgetary accounting, and other conditions affecting financial reporting, will be developed by USCG's Financial Strategy for Transformation and Audit Readiness (FSTAR) later in FY2008 or beyond.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objectives

The objective of this performance audit was to evaluate and report on the status of detailed MAPs prepared by USCG to correct internal control deficiencies over financial reporting. Our evaluation was performed using specific criteria, described in the Methodology section below, to assess the process used to develop and document USCG's FY 2008 MAPs. 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 the MAP implementation. Recommendations are provided to help address findings identified during our performance audit.

Scope

The scope of this performance audit includes USCG's FY 2008 MAPs developed to address the FBwT; Entity-Level Control; and IT Integration control weaknesses at the USCG as reported in the Secretary's FY 2007 Assurance Statement, and in the FY 2007 DHS Independent Auditors' Report. The MAPs subjected to our evaluation were provided by the OCFO, on behalf of the USCG, between November 30, 2007 (FBwT and Entity Level Controls); and December 31, 2007 (IT integration). The scope of this performance audit did not include procedures on any of the MAPs associated with other control deficiencies existing at USCG as reported in the FY 2007 Independent Auditors' Report. Our audit was performed between January 4, 2008 and February 11, 2008, and our results reported herein are as of February 22, 2008.

Methodology

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:

Phase I – Project Initiation and Planning – We attended meetings with the Department's Office of Inspector General (OIG), OCFO, and USCG to review the performance audit objectives and scope, describe our audit approach, communicate data requests, and gain an understanding of the status of USCG 2008 MAPs.

Phase II – Data Gathering – We performed interviews with accounting and finance management and staff at USCG 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 USCG to identify the underlying problems creating the internal control weakness (root cause), the planned corrective actions, the critical milestones chosen for measurement, and the methods used to monitor and validate progress in meeting the milestones. We discussed USCG's resource allocation strategy employed in the development and

eventual implementation of the MAPs, including the utilization of contractors to supplement staff as needed and the use of specialists, if necessary. We conducted meetings with the Department's OIG to identify and agree to the criteria used to evaluate the status of the MAPs (as defined below).

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

- The three USCG MAPs (i.e., the MAP Detail and Summary Reports) that were included within our scope, and any underlying supporting documentation provided by USCG.
- The Notice of Findings and Recommendations (NFRs) issued during the FY 2007 financial statement audit by the external auditors that supported the internal control findings reported in the FY 2007 Independent Auditors' Report.
- Information provided by USCG management regarding the allocation of resources related to all MAPs, including the utilization of contractors.
- The Annual Component Assurance statements provided pursuant to the requirements of OMB Circular No. A-123.
- The ICOFR Playbook, MD 1030, the MAP Guide, draft USCG FSTAR Standard Operating Procedures (SOPs), and existing internal control monitoring guidance (e.g., OMB Circular No. A-123).

Phase III – Analysis Using Established Criteria – Our evaluation criteria were developed from a variety of sources including technical guidance published by OMB (e.g., Circular No. A-123) and the Government Accountability Office (e.g., *Standards for Internal Control in the Federal Government*), and applicable Federal laws and regulations (e.g., *Federal Managers' Financial Integrity Act of 1982*). We also considered DHS' policies and guidance, such as the MAP Guide and the ICOFR Playbook, and input from the OIG. Our evaluation criteria were:

1. 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:
 - a) Research to discover why, when, and how the condition occurred – what went wrong and why?
 - b) Investigation to determine if the problem is procedural or human resources or both (processes, and /or people).
 - c) An evaluation to determine if IT system functionality is contributing to the problem, and if IT system modifications could be part of the remediation.
 - d) An evaluation of internal controls, including the existence of compensating controls that may mitigate the deficiencies.
2. Development (of the MAP) – The MAP includes action steps that address the root cause, and attainable and measurable milestones at an appropriate level of detail. Milestones should enable independent analysis of a MAP's effectiveness in remediating root causes, and provide MAP users with insight on the status of the MAP's implementation. For example, they enable a user to determine if the appropriate level of resources to execute a milestone is available and identify potential gaps in milestones (e.g. a contractor may need to be hired before a specific milestone can be achieved).
3. 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 that milestones are achieved, and validation of results.
4. Verification and Validation – The MAP includes written procedures that verify successful implementation of the MAP, provide a means to track progress throughout the MAP lifecycle,

and require reporting results when complete. These activities should include documentation reviews, work observations, and performance testing that is maintained for internal OMB Circular No. A-123 review and external audit.

Phase IV – Findings and Recommendations – After conducting our Phase III procedures and applying the evaluation criteria to the MAPs, we formulated our findings and recommendations. The findings represent areas for potential improvement that could negatively affect USCG's remediation of the control deficiencies if the MAP is performed as designed.

FINDINGS AND RECOMMENDATIONS

The findings and recommendations described below resulted from procedures we performed on the MAP documentation provided on January 4, 2008 and do not reflect any subsequent enhancements and changes made to the documentation. We have not performed testwork over the nature and extent of any modifications made subsequent to our review and the findings and recommendations detailed below are not reflective of any changes.

Findings

We categorized our findings by evaluation criteria.

Identification

Our observations and comments related to the identification criteria of the USCG MAPs are consistent across each of three MAPs – FBwT, Entity-level controls, and IT Integration. We noted that:

- The root causes identified were often generally defined, e.g., “Coast Guard has not designed a comprehensive, integrated accounting IT system to comply with the FFMIA system requirements and the USSGL at the transaction level.” We also noted that the root cause was often listed as a condition or symptom of the problem, e.g., “Personnel Service Center (PSC) was not informed of the recurring reclassification entries that the finance center (FINCEN) manually processes due to errors in the interface file.”
- Evidence of an in-depth root cause analysis, including supporting information, and personnel consulted, was not created or maintained, preventing supervisory review, and independent corroboration of conclusions. USCG personnel indicated that root causes were determined by review of the Notice of Findings and Recommendations issued during the DHS financial statement audits, the documentation developed and control gaps identified during the A-123 assessment project, and consensus reached through discussions between key USCG process owners. Consequently, we were unable to substantiate that the USCG performed an investigation to identify the underlying problem, and conducted their assessment of the business processes, data flows, and information systems that drive the transactions/activities associated with the control deficiencies and material weaknesses.
- Critical interdependencies are not identified. For example, to successfully implement the FBwT MAP, and remediate the FBwT material weakness, it may be necessary for USCG to meet milestones and correct underlying conditions identified in other MAPs related to human resources and payroll, payment management, budgetary resource management, entity-level controls and/or the IT processes. However, the FBwT MAP does not illustrate these potential interdependent milestones or indicate how they may affect the successful implementation of the FBwT MAP.
- The conditions identified in the issue description sections of the MAPs do not clearly link or cross-reference to audit findings and the material weakness conditions identified in the Independent Auditors' Report, making it difficult to determine if all of the conditions supporting control weaknesses have been considered and are addressed in the MAPs. In certain instances,

the conditions described in the "Issue Description" section of the three MAPs do not clearly articulate the conditions and the severity of such conditions and how they impact the ability of management to support its financial reporting assertions. If the issues are not accurately described, USCG risks not being able to conduct comprehensive root cause analysis and develop effective MAPs.

Development

Our observations and comments related to the development criteria of the USCG MAPs are consistent across each of three MAPs – FBwT, Entity-level controls, and IT Integration. We noted that:

- The MAPs lack specificity – The MAPs include general steps such as, "conduct analysis of IPAC and other significant classes of transactions," "Develop and promulgate operational objectives for internal control," "develop and implement standardized payment confirmation process," and "Implement monitoring/enforcement based on process/procedures defined," which are broad objectives, and usually not measurable.
- The current MAP milestones are not linked directly to the financial statement assertions affected by the control weaknesses. As a result, the successful completion of the milestones may not fully address the appropriate financial assertions and achieve the desired result of correcting the existing internal control deficiencies.
- Some MAPs defer the development of the detailed MAP project plan and milestones. For example, the Entity-level control MAP includes a task to "develop detailed project plan & resourcing assessment to conduct workforce analysis on financial management organizational and internal control strategy, structure, and processes" by September 1, 2008.

Accountability

Our observations and comments related to the accountability criteria of the USCG MAPs are consistent across each of three MAPs – FBwT, Entity-level controls, and IT Integration. The USCG properly identifies a responsible party for the MAPs, and the USCG designee in-charge of each MAP. As such, accountability for the MAP implementation is specified.

The USCG is currently evaluating its human and other resource necessary to implement the MAPs. The MAPs and the draft FSTAR SOP state, "no funding will be applied to a task without a vetted, approved project plan" however, project plans have not been developed or completed. In accordance with its policy, the MAP will need to be approved before funding is provided and resources acquired. Delays in finalization of the plan and acquisition of resources could affect the timely completion of planned actions in FY2008.

Verification and Validation

Our observations and comments related to the verification and validation criteria of the USCG MAPs are consistent across each of three MAPs – FBwT, Entity-level controls, and IT Integration. We noted that:

- Some key milestones in the MAPs contain steps that are not measurable or designed with incremental objectives. USCG has identified various critical milestones within each of the three MAPs, however they are often defined without a degree of specificity that would allow measurement. For example, we noted many milestones are achieved through confirmation of progress from the task owner. Confirmation of milestone completion is not a feasible measurement method, as achievement of a critical milestone should be measured using concrete evidence demonstrating that the task is complete. The difficulty in implementing a feasible measurement method for all critical milestones could stem from the lack of detailed, actionable steps.

- Many milestones are based on passage of time. Per the MAP Guide, “In the event that a MAP has a gap between any milestones (including the initial and final milestones) greater than or equal to 2 months, the Component must include interim milestones for that timeframe to ensure quarterly progress and results can be determined.”
- While a contractor has drafted and provided to USCG for review, a set of operating procedures to monitor the progress of the MAP, the USCG has not adopted a comprehensive verification and validation plan to monitor the progress of the MAP. In addition, USCG has not implemented a mechanism to monitor its progress in meeting MAP milestones.

Recommendations

We recommend that the USCG perform the following to address our findings.

1. Review each MAP, complete a thorough root cause analysis. When finished, the root cause analysis should:
 - a. Identify the problem causing the internal control weakness, including how it occurred, when, and why. Current policies and procedures, human resources, and how IT systems affect the conditions should be considered;
 - b. Identify and show consideration of all significant interdependencies, with overlapping processes and other MAP’s. Perform process/sub-process analysis at a detailed activity or transaction level to identify all control and process deficiencies. This analysis should include a walkthrough or “test drive” of the activity/process flow with actual data or transactions. This facilitate enable the USCG’s ability to develop comprehensive MAPs that include potential interrelationships between processes or other MAPs;
 - c. Be prioritized for correction, to minimize duplication of effort where corrective actions overlap (i.e., correction of IT system posting logic errors may resolve multiple issues, or mitigate the need for process changes); and
 - d. Be documented with sufficient level of detail to provide an adequate understanding of control and process deficiencies, how the deficiencies affect the financial reporting assertions, laws and regulations, and accounting standards, and enable a MAP user to prioritize the conditions based on their severity. Maintain documentation supporting the analysis for management review, OMB Circular A-123 cross-reference and external auditor review.
2. Modify the MAPs based on the analysis performed in #1 above. Each MAP should include specific corrective actions, avoiding general steps. Link or cross-reference the conditions identified in the issue description sections of the USCG MAPs to the material weakness conditions identified in the FY 2007 Independent Auditors’ Report, to ensure reconcile the conditions identified in the FY 2007 Independent Auditors’ Report to actions in the MAPs. Matrix the MAPs to the specific financial statement assertions that are affected by the control weaknesses being identified to ensure coverage of all key management assertions.
3. Each MAP should include incremental milestones that are attainable, measurable, and verifiable, at an appropriate level of detail to enable independent analysis of a MAP’s effectiveness in remediating root causes and provide MAP users with insight on the status of the MAP’s implementation. Ensure that MAP milestones and implementation schedules are realistic given USCG funding constraints. Avoid using milestones that are met simply by passage of time.
4. Develop a comprehensive plan for verification and validation of MAP results that can be used to monitor and report results. Link the verification procedures to the OMB Circular A-123 initiatives of the Department. Ensure that the objective of the verification and validation process

as described in the draft FSTAR SOP is to determine whether the remediation action was successful in supporting the relevant financial reporting assertions and/or compliance with laws and regulations and accounting standards.

5. Include the development of an "end state" model for each defined process, including taking future Department systems baseline and support for financial reporting assertions, laws and regulations, and accounting standards into consideration. The end state model should account for the entire business process or life cycle from initiation through to completion (e.g. often the recording and reporting activities in a transactional process). Then compare the current processes with the identified control and process deficiencies and root causes to the end state model to develop specific, actionable and measurable project plan steps linked to supporting the financial reporting assertions and complying with laws and regulations and accounting standards.
6. Ensure that the USCG MAP owners have the support necessary to successfully implement the MAPs.

MANAGEMENT RESPONSE TO OUR 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 and specified in the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*. In addition, it requires that the heads of agencies to annually evaluate and report on the effectiveness of the internal control and financial management systems.

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) designates the Department's Chief Financial Officer (CFO), under the authority of the Secretary, as the party responsible for the design and implementation of Department-wide internal controls. Furthermore, the DHS FAA requires that a management's assertion and an audit opinion of the internal controls over financial reporting be included in the Department's annual *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 management controls; 2) assess the adequacy of management controls; 3) identify needed improvements; 4) take corresponding corrective action; and 5) report annually on management controls. The successful implementation of these requirements facilitates compliance with both FMFIA and the DHS FAA.

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 DHS FAA.

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 the "Department's vision and direction on the roles and responsibilities for developing, maintaining, reporting, and monitoring MAPs specific to the *DHS Financial Accountability Act*, *FMFIA*, and related OMB guidance." In addition to the roles and responsibilities, MD 1030 outlines the policies and procedures related to the MAP process. The

organizational structure detailed in MD 1030 encompasses employees at both the component and department levels.

The *Internal Controls Over Financial Reporting (ICOFR) Playbook (ICOFR Playbook)* was developed by the OCFO, Internal Control Program Management Office, to assist the Department in meeting the financial accountability requirements outlined in the DHS FAA. The ICOFR Playbook outlines the Department's "strategy and process to resolve material weaknesses and build management assurances." On an annual basis, the ICOFR Playbook is updated by the OCFO to enhance its exiting guidance, as necessary, and establish milestones, which will be monitored by the OCFO throughout the year. A component of the ICOFR Playbook is MAPs developed by the Department and its components to correct internal control deficiencies.

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., OFM) 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 issued on November 15, 2007 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 No. A-136, *Financial Reporting Requirements*.

U.S. Department of
Homeland Security

United States
Coast Guard



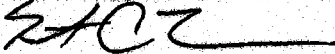
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MEMORANDUM

MAY 23 2008


From: RDML Keith Taylor
Assistant Commandant for Resources
and Chief Financial Officer
U. S. Coast Guard (USCG)

Reply to: CG-85
Attn of: CAPT E. G. Faux
(202) 372-3717

To: Anne L. Richards
Assistant Inspector General for Audits
Department of Homeland Security (DHS)

Subj: MANAGEMENT RESPONSE TO DRAFT PERFORMANCE AUDIT REPORT ON
USCG FY 2008 MISSION ACTION PLANS

1. Thank you for the opportunity to provide comment on the draft performance audit report pertaining to the U. S. Coast Guard's FY 2008 Mission Action Plans (MAPs). While in general the Coast Guard concurs with the findings and recommendations contained in the report, it is important to note that these MAPs were prepared using the following steps provided in DHS guidance: identify control deficiencies, conduct root cause analysis, identify root cause based actions, develop milestones and tasks, and approve the MAP.
2. To improve the process and expected results the Service has taken several positive steps over the past three months to address the issues identified in the audit. With the Coast Guard Financial Strategy for Transformation and Audit Readiness (FSTAR) published in March 2007 as our basis and in alignment with the findings of the audit, the Coast Guard is refining its approach for financial audit readiness to better articulate the critical path between our current audit remediation efforts and making financial statement assertions. The following steps provide the necessary structure and requirements to refine the multi-year audit readiness strategy. Specifically, the approach identifies the Coast Guard's need to:
 - a. map financial statement captions, line item balances, assertions, and footnote disclosures to key business processes and to the financial and mixed systems through which the transactions flow;
 - b. identify assessable units and known weaknesses and gaps in data quality and process documentation;
 - c. conduct a risk assessment of each assessable unit based on quantitative and qualitative factors, including significance of interdependencies within the MAPs, to determine the priorities for executing remediation and building assertions;
 - d. summarize the current state of the internal control documentation, weaknesses, and account balance information; the status of the design and implementation of process controls;

the accuracy and validity of beginning balances; and the verification and validation completion;

e. identify entity level controls, resource needs and preliminary timelines, as well as refine strategies, revise MAPs, and revise/develop detailed project plans; and

f. revise the FSTAR as appropriate to reflect revised project management structure and revised management control program guidance.

3. The Vice Commandant of the Coast Guard chartered the Audit Readiness Planning Team (ARPT) to implement this next phase in our on-going efforts. Consisting of Coast Guard, DHS, and contract accounting and resource management professionals, the ARPT will develop the revised multi-year entity-wide strategy to achieve financial statement audit readiness. The ARPT is scheduled to conclude its effort by the end of August 2008.

4. Coincidental to the performance audit, the Coast Guard implemented the revised FSTAR Standard Operating Procedures (SOP). The revised SOP describes the enhanced management structure and the roles and responsibilities of MAP development and monitoring required of process owners critical to audit remediation efforts, including the verification and validation steps required to support identification and closure of control gaps.

5. The Coast Guard continues to invest extensive effort in audit remediation. The above actions clearly address the report's recommendations and will help to strengthen ongoing Coast Guard audit remediation practices. If you have any questions concerning this response please contact me, or your staff may contact CAPT Ekundayo Faux, Chief, Office of Financial Transformation and Compliance, at 202-372-3717.

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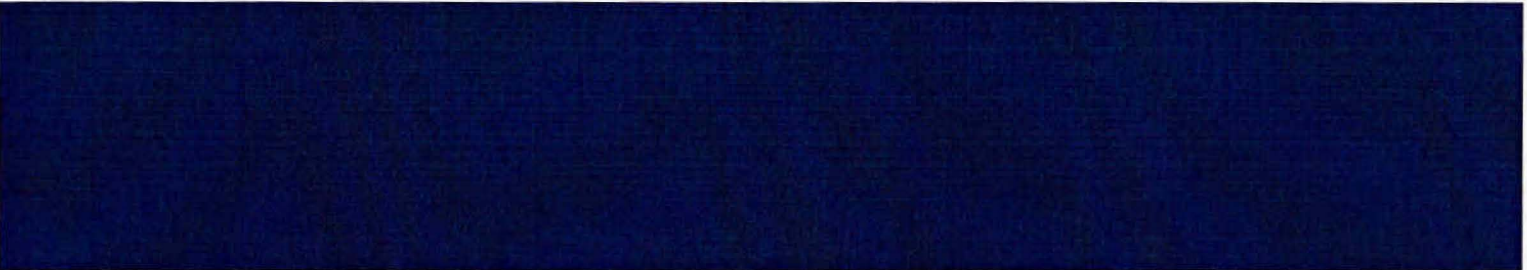
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