Department of Homeland Security

Office of Inspector General

Independent Review of the U.S. Coast Guard's Reporting of FY 2011 Drug Control Obligations

OIG-12-31

January 2012

Office of Inspector General

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

Homeland Security

JAN 30 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 results of the review of the Table of FY 2011 Drug Control Obligations and related disclosures of the U.S. Coast Guard for the fiscal year ended September 30, 2011, for the Office of National Drug Control Policy. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the review. U.S. Coast Guard management prepared the Table of FY 2011 Drug Control Obligations and related disclosures to comply with requirements of the Office of National Drug Control Policy Circular, *Drug Control Accounting,* dated May 1, 2007. Due to the U.S. Coast Guard's inability to provide assurance as to the integrity of the financial data in the detailed accounting submissions, KPMG was unable to complete its review and report on the Table of FY 2011 Drug Control Obligations and related disclosures.

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.

Anne L. Richards

Anne L. Richards
Assistant Inspector General for Audits

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

January 20, 2012

Ms. Anne Richards
Assistant Inspector General for Audits
Office of the Inspector General
U.S. Department of Homeland Security
Stop 2600 (AUD/FM)
245 Murray Drive Building 410
Washington, DC 20528

Dear Ms. Richards:

We were engaged to review the Table of FY 2011 Drug Control Obligations and related disclosures, and the accompanying management's assertions of the U.S. Department of Homeland Security's (DHS) United States Coast Guard (USCG) for the year ended September 30, 2011. USCG management is responsible for the Table of FY 2011 Drug Control Obligations, related disclosures, and the assertions.

The Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, dated May 1, 2007 (the Circular), requires management to disclose any material weaknesses or other findings affecting the presentation of data reported, and to make certain assertions related to the financial systems supporting the drug methodology used in compilation of the Table of FY 2011 Drug Control Obligations and related disclosures. Management reported that it cannot provide assurances as to the integrity of the financial data contained in its Table of FY 2011 Drug Control Obligations and related disclosures; and management has not provided an assertion that the financial systems supporting the drug methodology yield data that fairly present, in all material respects, aggregate drug-related obligation estimates.

In accordance with applicable professional standards, without certain representations made by management, including the integrity of the financial data and its systems, we are unable to complete our review of USCG's Table of FY 2011 Drug Control Obligations, related disclosures, and management's assertions. Accordingly, we are unable to provide an Independent Accountants' Report on the USCG's Table of FY 2011 Drug Control Obligations, related disclosures, and management's assertions for the year ended September 30, 2011, pursuant to the requirements of the Circular.

Sincerely,

Scot G. Janssen,
Partner

U.S. Department of Homeland Security
United States Coast Guard

Commandant
United States Coast Guard

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JAN 1 7 2012

Mr. John D. Shiffer
Department of Homeland Security
Financial Management Division
Office of the Inspector General

Dear Mr. Shiffer,

In accordance with the Office of National Drug Control Policy Circular: *Annual Accounting of Drug Control Funds* dated May 1, 2007, enclosed is the Coast Guard's report of FY 2011 drug control obligations, methodology, and assertions.

If you require further assistance on this information, please contact LCDR Lexia Littlejohn at (202) 372-3513.

Sincerely,

T.A. SOKALZUK
Captain, U.S. Coast Guard
Chief, Office of Budget and Programs

Copy: DHS Budget Office

Enclosures:
(1) USCG FY 2011 Detailed Accounting Submission
(2) Independent Auditors' Report Exhibit I – Material Weaknesses in Internal Control – U.S. Coast Guard
(3) 2011 USCG Assurance Statement

U.S. DEPARTMENT OF HOMELAND SECURITY
UNITED STATES COAST GUARD
Detailed Accounting Submission of FY 2011 Drug Control Funds

DETAILED ACCOUNTING SUBMISSION

A. Table of FY 2011 Drug Control Obligations

RESOURCE SUMMARY
(Dollars in Millions)

	2011 Actual
Drug Resources by Drug Control Function:	**Obligations**
• Interdiction	$1,405.661
• Research and Development	$2.395
Total Resources by Function	**$1,408.056**
Drug Resources by Budget Decision Unit:	
• Operating Expenses	$739.622
• Reserve Training	$14.225
• Acquisition, Construction, and Improvements	$651.814
• Research, Development, Test and Evaluation	$2.395
Total Drug Control Obligations	**$1,408.056**

1. Drug Methodology

In FY 2000, a methodology known as the Mission Cost Model (MCM) was developed to present United States Coast Guard (Coast Guard) missions using activity based cost accounting principles. The MCM is an estimate of operational mission costs allocated across Coast Guard's 11 mission/programs. The information reported is timely and is derived from an allocation process involving the Coast Guard's financial statement information. Further, the Coast Guard has developed an operating hour baseline as a method to approximate the future allocation of resource hours for each asset class to multiple Coast Guard missions. This is the basis for funding allocations in budget projections. The operating hour allocation, or baseline, is developed and modified based upon budget line item requests and national priorities. Coast Guard is required to report its drug control funding to the Office of National Drug Control Policy (ONDCP) in four appropriations, categorically called decision units. The Coast Guard's drug control funding estimates are computed by closely examining the decision units that are comprised of: Operating Expenses (OE); Reserve Training (RT); Acquisition, Construction, and Improvement (AC&I); and Research, Development, Test, and Evaluation (RDT&E). Each decision unit contains its own unique spending authority and methodology.

1. Drug Methodology (cont.)

For example, AC&I includes funding that remains available for obligation up to five years after appropriation and RDT&E includes funding which does not expire. Unless stipulated by law, OE and RT funding must be spent in the fiscal year it is appropriated. The mechanics of the MCM methodology used to derive the drug control information for each decision unit's drug control data follows.

Mission Cost Allocations

OE funds are used to operate Coast Guard facilities; maintain capital equipment; improve management effectiveness; and recruit, train, sustain, and compensate, an active duty military and civilian workforce. The basic MCM is therefore based on OE asset costs and support activities. In the OE budget, the amount allocated to the drug interdiction program is derived by allocating a share of the actual expenditures based upon the percentage of time aircraft, cutters, and boats spent conducting drug interdiction activities. The Coast Guard tracks the resource hours spent on each of the 11 Coast Guard statutory missions by using a web-based Abstract of Operations (AOPS) data collection and report system. Coast Guard AOPS data is used to develop the amount of time each asset class spends conducting each Coast Guard mission. Using financial data gathered from over 3,000 cost centers around the United States along with the AOPS information, the Coast Guard is able to allocate OE costs to each of the 11 statutory missions consisting of: Drug Interdiction; Migrant Interdiction; Ports, Waterways and Coastal Security; Other Law Enforcement; Defense Readiness; Search and Rescue; Marine Safety; Ice Operations; Marine Environmental Protection; Living Marine Resources; and Aids to Navigation. Allocation of RT funding to the Coast Guard's drug interdiction mission is done using the same methodology as the OE appropriation.

The methodology used to develop the drug funding estimate for AC&I is systematically different from that of OE and RT because AC&I is a multi-year appropriation. AC&I drug funding levels for budget authority (BA) and obligations are developed through an analysis in which each project/line item is associated with a discrete driver that best approximates the contribution that asset or project will contribute to each of the Coast Guard's 11 statutory missions when the asset or project is delivered . BA is derived from the agency's annual enacted appropriation and obligation data is derived from the final financial accounting Report on Budget Execution (SF-133). The methodology used to develop the drug-funding estimate for RDT&E is similar to that of AC&I.

Mission Cost Model Application & Results – The two chief input drivers to the MCM are:

- Financial costs of each Coast Guard asset and other expenses areas, made up of direct, support and overhead costs.
- FY 2011 AOPS hours – The support and overhead costs for each asset and other expenses element is applied to hours projected from the FY 2011 AOPS. These costs are reflective of the more static conditions of Coast Guard operations relative to the support functions and administrative oversight. The direct costs are applied to the final AOPS hours to show the dynamic flow of operations experienced during FY 2011. The overall effect of the computed amount from the static baseline and reality of AOPS results in a percentage to drive Coast Guard OE expenditures allocation across 11 statutory missions.

Normalize to Budget Authority or Obligations – The program percentages derived from the MCM are then applied to total OE, RT, AC&I and RDT&E FY 2011 BA and obligations (see Attachments A, B, C and D, respectively), depending upon the reporting requirement.

2. Methodology Modifications

The methodology described above is consistent with the previous year.

3. Material Weaknesses or Other Findings

As identified in the Department of Homeland Security (DHS) Chief Financial Officers (CFO) Act of 1990 audit and feedback provided in the enclosed FY 2011 Independent Auditors' Report: Exhibit I – Material Weaknesses in Internal Control over Financial Reporting (Enclosure 2) and described in the enclosed FY 2011 U.S. Coast Guard Assurance Statement (Enclosure 3), the Coast Guard cannot assert to the reliability of general property, plant, and equipment (PP&E), environmental liabilities, and their related effects, if any, on other balances presented in the DHS financial statements as of September 30, 2011. As such, the Coast Guard cannot provide assurances as to the integrity of the financial data contained in this report.

The Coast Guard's Financial Strategy for Transformation and Audit Readiness (FSTAR) continues to guide the Mission Action Plans that strengthen the internal controls leading to assurance over financial information. This effort seeks to attack the root causes and implement long term solutions of the identified material weaknesses and other financial management issues. The Coast Guard will continue to build on its ongoing successes achieved in supporting the completeness, existence, and valuation of its vessels, aircraft, and small boat assets and the significant progress to incorporate vehicles. The Coast Guard will use lessons learned in these areas and the momentum attained to achieve its objective of supporting the auditability of the general PP&E line item by September 30, 2012.

Since environmental liabilities depend substantially on capitalized property efforts, the Coast Guard will refine the estimated liabilities associated with real property, such as lighthouses, buildings, land, and structures in FY 2012. This effort is dependent on the development of a complete inventory of Coast Guard real property assets. Furthermore, the Coast Guard will implement the 11-month environmental liabilities program management plan to develop initial cost-to-study estimates for environmental liabilities associated with the Coast Guard's known assets. Cost-to-study estimates represent the appropriate minimum liability for known conditions for which there is insufficient cost data to estimate the cost to remediate the known condition. The Coast Guard will also develop the groundwork for future refinement and sustainment of estimates and a comprehensive program to identify and properly assess conditions at Coast Guard sites in accordance with the 11-month plan. Additionally, the Coast Guard will pursue improved internal controls in the collection of our Abstract of Operations information necessary to give assurance to the non-financial data used to produce a portion of this report. Of note, due to ongoing remediation efforts guided by FSTAR, the Coast Guard helped the Department of Homeland Security achieve a qualified audit opinion on the consolidated Balance Sheet as of November 15, 2011.

4. Reprogrammings or Transfers

During FY 2011, the Coast Guard had no transfers or reprogramming actions affecting drug related budget resources in excess of $1 million.

5. Other Disclosures

The following provides a synopsis of the United States Coast Guard's FY 2011 Drug Control Funds reporting which describes:

1. The agency's overall mission and the role of drug interdiction efforts within the Coast Guard's multi-mission structure; and
2. The Coast Guard's Drug Budget Submission.

Coast Guard Mission

The Coast Guard is a military service with mandated national security and national defense responsibilities and the United States' leading maritime law enforcement agency with broad, multi-faceted jurisdictional authority. Due to the multi-mission nature of the Coast Guard and the necessity to allocate the effort of a finite amount of assets, there is a considerable degree of asset "cross-over" between missions. This cross-over contributes to the challenges the Coast Guard faces when reporting costs for its mission areas.

Coast Guard's Drug Budget Submission

In the annual National Drug Control Strategy (NDCS) Budget Summary, all agencies present their drug control resources broken out by function and decision unit. The presentation by decision unit is the one that corresponds most closely to the Coast Guard's congressional budget submissions and appropriations. It should be noted and emphasized that the Coast Guard does not have a specific appropriation for drug interdiction activities. As such, there are no financial accounting lines for each of Coast Guard's 11 statutory missions. All drug interdiction operations, capital improvements, reserve support, and research and development efforts are funded out of general Coast Guard appropriations.

For the most part, the Coast Guard drug control budget is a reflection of the Coast Guard's overall budget. The Coast Guard's OE appropriation budget request is incremental, focusing on the changes from the prior year base brought forward. The Coast Guard continues to present supplementary budget information through the use of the MCM, which allocates base funding and incremental requests by mission.

This general purpose MCM serves as the basis for developing drug control budget estimates for the OE and RT appropriations and provides allocation percentages used to develop the drug control estimates for the AC&I and RDT&E appropriations and the process is repeatable. Similarly, this is the same methodology used to complete our annual submission to the Office of National Drug Control Policy (ONDCP) for the NDCS Budget Summary.

B. Assertions

1) **Obligations by Budget Decision Unit –** N/A. As a multi-mission agency, the Coast Guard is exempt from this reporting requirement.

2) **Drug Methodology –** The Coast Guard does not have a discrete drug control appropriation and its financial systems are not structured to accumulate accounting data by operating programs or missions areas. However, the methodology used to produce the drug interdiction funding in this report is a repeatable mission spread process which the Coast Guard incorporates throughout its annual budget year submissions and mission related reports. These submissions include: Resource Allocation Proposal (RAP), Resource Allocation Decision (RAD) and the Office of Management and Budget's (OMB) MAX budget update of Coast Guard's Congressional Budget submissions and the DHS CFO Statement of Net Cost report. The criteria associated to this assertion are as follows:

   a) **Data** – The percentage allocation results derived from its MCM methodology are based on the most current financial and AOPS data available.

   b) **Other Estimation Methods –** No other estimation methods are used.

   c) **Financial Systems** – Financial data used in this methodology are derived from CAS and SFLC systems. No other financial system or information is used in developing program or mission area allocations. The Coast Guard cannot provide assurances as to the integrity of the financial data contained in this report since it has not fully implemented corrective actions to remediate weaknesses identified by the independent auditors during the annual DHS CFO Act audits. As a result, the Coast Guard could not assert to the completeness, existence (validity), accuracy, valuation or presentation of its financial data in this report.

3) **Application of Drug Methodology -** The methodology disclosed in this section was the actual methodology used to generate the drug control obligation funding table required by ONDCP Circular: *Drug Control Accounting* May 1, 2007 Section 6A. Documentation on each decision unit is provided**.**

4) **Reprogrammings or Transfers -** During FY 2011, Coast Guard had no transfers or reprogramming actions affecting drug-related budget resources in excess of $1 million.

5) **Fund Control Notices –**ONDCP did not issue Coast Guard a Fund Control Notice for FY 2011.

Attachment A

OPERATING EXPENSES (OE) MISSION COST MODEL OUTPUT:

	(dollars in thousands) FY 2011 Obligations	% of total
1. Search and Rescue (SAR)	745,993	10.80%
2. Marine Safety (MS)	593,962	8.60%
3. Aids to Navigation (ATON)	1,287,463	18.64%
4. Ice Operations (IO)	151,060	2.19%
5. Marine Environmental Protection (MEP)	165,585	2.40%
6. Living Marine Resources (LMR)	642,880	9.31%
7. Drug Interdiction	739,622	10.71%
8. Other Law Enforcement (OTH-LE)	117,304	1.70%
9. Migrant Interdiction	469,136	6.79%
10. Ports, Waterways & Coastal Security (PWCS)	1,407,502	20.38%
11. Defense Readiness	586,951	8.50%
Total OE Obligations	$ 6,907,458	100%

Note: Includes -$58,812 recoveries of prior year obligations.

Attachment B

RESERVE TRAINING (RT)
MISSION COST MODEL OUTPUT:

	(dollars in thousands) FY 2011 Obligations	% of total
1. Search and Rescue (SAR)	14,347	10.80%
2. Marine Safety (MS)	11,423	8.60%
3. Aids to Navigation (ATON)	24,761	18.64%
4. Ice Operations (IO)	2,905	2.19%
5. Marine Environmental Protection (MEP)	3,184	2.40%
6. Living Marine Resources (LMR)	12,364	9.31%
7. Drug Interdiction	14,225	10.71%
8. Other Law Enforcement (OTH-LE)	2,258	1.70%
9. Migrant Interdiction	9,023	6.79%
10. Ports, Waterways & Coastal Security (PWCS)	27,070	20.38%
11. Defense Readiness	11,289	8.50%
Total RT Obligations	$ 132,849	100%

ACQUISITION, CONSTRUCTION and IMPROVEMENTS (AC&I) MISSION COST MODEL OUTPUT:

	(dollars in thousands) FY 2011 Obligations	% of total
1. Search and Rescue (SAR)	168,685	8.03%
2. Marine Safety (MS)	30,350	1.44%
3. Aids to Navigation (ATON)	38,042	1.81%
4. Ice Operations (IO)	2,275	0.11%
5. Marine Environmental Protection (MEP)	12,277	0.58%
6. Living Marine Resources (LMR)	401,580	19.11%
7. Drug Interdiction	651,814	31.02%
8. Other Law Enforcement (OTH-LE)	100,182	4.77%
9. Migrant Interdiction	314,070	14.94%
10. Ports, Waterways & Coastal Security (PWCS)	185,281	8.82%
11. Defense Readiness	197,024	9.38%
Total AC&I Obligations	$ 2,101,580	100%

Note: Includes -$46,946,111 recoveries of prior year obligations.

RESEARCH, DEVELOPMENT, TEST and EVALUATION (RDT&E) MISSION COST MODEL OUTPUT:

	(dollars in thousands) FY 2011 Obligations	% of total
1. Search and Rescue (SAR)	1,424	6.93%
2. Marine Safety (MS)	4,176	20.34%
3. Aids to Navigation (ATON)	165	0.80%
4. Ice Operations (IO)	125	0.61%
5. Marine Environmental Protection (MEP)	8,466	41.23%
6. Living Marine Resources (LMR)	1,171	5.70%
7. Drug Interdiction	2,395	11.66%
8. Other Law Enforcement (OTH-LE)	384	1.87%
9. Migrant Interdiction	902	4.39%
10. Ports, Waterways & Coastal Security (PWCS)	1,008	4.91%
11. Defense Readiness	320	1.56%
Total RDT&E Obligations	$ 20,536	100%

Note: Includes -$2,475,124 recoveries from prior year obligations.

I-A Financial Reporting

Background: In previous years, we reported that the U.S. Coast Guard (Coast Guard) had several internal control deficiencies that led to a material weakness in financial reporting. In response, the Coast Guard developed its *Financial Strategy for Transformation and Audit Readiness* (FSTAR), which is a comprehensive plan that includes various Mission Action Plans (MAPs) designed to identify and correct conditions that are causing control deficiencies and, in some cases, preventing the Coast Guard from preparing auditable financial statements.

The Coast Guard made progress in fiscal year (FY) 2011, by completing its planned corrective actions over selected internal control deficiencies. Specifically, the Coast Guard implemented new policies and procedures, and automated tools to improve internal controls and the reliability of its financial statements throughout FY 2011. These remediation efforts allowed management to make new assertions in FY 2011 related to the auditability of its financial statement balances, including $6.3 billion of fund balance with Treasury. The FSTAR calls for continued remediation of control deficiencies and reconciliation of balances in FY 2012. Consequently, some conditions of the financial reporting control weaknesses that we reported in the past remain uncorrected at September 30, 2011.

Conditions: The Coast Guard does not have properly designed, implemented, and effective policies, procedures, processes, and controls surrounding its financial reporting process, as necessary, to:

- Support beginning balance and year-end close-out related activity, and the cumulative results of operations analysis in its general ledgers individually and/or in the aggregate.
- Ensure that all journal entries and edit queries impacting the general ledger are adequately researched and supported. Specifically, documenting that adequate research regarding the underlying cause(s) was performed, and maintaining the appropriate transactional-level supporting detail.
- Ensure that all accounts receivable balances exist, are complete and accurate, and properly presented in the financial statements. For example, the underlying data used to support accounts receivable balances was not always accurate (e.g., incorrect standard rates applied), reimbursable activity may not be identified and recorded timely due to intra-governmental reconciliation difficulties, and accounts receivable activity is not always properly recorded in the financial statements on a timely basis.
- Ensure all financial statement information (e.g., statement of net cost, statement of budgetary resources, statement of changes in net position) and related disclosures submitted for incorporation in the DHS consolidated financial statements are accurate and complete.
- Ascertain that intra-governmental activities and balances are identified, monitored, properly recorded, and differences, especially with agencies outside DHS, are being resolved in a timely manner in coordination with the Department's Office of Financial Management (OFM).

Cause/Effect: The Coast Guard has not developed and implemented an effective general ledger system. The Core Accounting System (CAS), Aircraft Logistics Management Information System (ALMIS), and Naval Engineering Supply Support System (NESSS) general ledgers do not comply with the requirements of the *Federal Financial Management Improvement Act of 1996* (FFMIA). The general ledgers do not allow for compliance with the United States Standard General Ledger (USSGL) at the transaction level, and period-end and opening balances are not supported by transactional detail in the three general ledgers. The conditions described below in Comment **I-B**, *Information Technology Controls and Financial Systems Functionality* contribute to the financial reporting control deficiencies, and make correction more difficult. Some remediation initiatives implemented in FY 2011 were not fully implemented for the entire year, and the FSTAR calls for continued remediation in FY 2012.

Because of the conditions noted above, the Coast Guard and the Department were unable to provide reasonable assurance that internal controls over financial reporting were operating effectively at September 30, 2011, and has acknowledged that pervasive material weaknesses and various internal control deficiencies continue to exist in some key financial processes. Consequently, the Coast Guard cannot assert to the reliability of general property, plant, and equipment, environmental liabilities, and their related effects, if any, on other balances presented in the Department's financial statements as of September 30, 2011.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria* behind Exhibit V.

Recommendations: We recommend that the Coast Guard:

1. Continue the implementation of the FSTAR and completion of MAPs, as planned;
2. Implement accounting and financial reporting processes including an integrated general ledger system that is FFMIA compliant; and
3. Establish new or improve existing policies, procedures, and related internal controls to ensure that:
    a. The year-end close-out process, reconciliations, and financial data and account analysis procedures are supported by documentation, including evidence of effective management review and approval, and beginning balances in the following year are determined to be reliable and auditable;
    b. All journal entries and edit queries impacting the general ledger are adequately researched and supported;
    c. Accounts receivable balances are complete and accurate, and properly presented in the financial statements;
    d. Financial statement disclosures submitted for incorporation in the Department of Homeland Security (DHS or Department) financial statements are accurate and complete; and
    e. All intra-governmental activities and balances are reconciled on a timely basis, accurately reflected in the financial statements, and differences are resolved in a timely manner in coordination with the Department's Office of Financial Management (OFM).

I-B Information Technology Controls and Financial Systems Functionality

Background: Information Technology (IT) general and application controls are essential for achieving effective and reliable reporting of financial and performance data. IT general controls (ITGCs) are tested using the objectives defined by the U.S. General Accountability Office (GAO)'s *Federal Information System Controls Audit Manual* (FISCAM), in five key control areas: security management, access control, configuration management, segregation of duties, and business continuity. Our procedures included a review of the Coast Guard's key ITGC environments.

We also considered the effects of financial systems functionality when testing ITGCs. We noted that financial system limitations contribute to the Coast Guard's challenge of addressing systemic internal control weaknesses, strengthening the control environment, and complying with relevant Federal financial system requirements and guidelines, notably FFMIA, Office of Management and Budget (OMB) Circular A-127, *Financial Management Systems*, and DHS policies.

In FY 2011, our ITGC control testing identified 21 findings, of which 16 were repeat findings from the prior year and 5 were new findings. In addition, we determined that Coast Guard remediated 12 findings identified in previous years. Specifically, the Coast Guard took actions to improve aspects of its IT security controls, including password configurations, data center physical security, and audit log reviews.

Conditions: Our findings related to financial system controls and functionality are as follows:

Related to IT controls:

Conditions: We noted that IT security access controls and configuration management controls supporting Coast Guard's financial systems are not operating effectively, and continue to present risks to DHS financial data confidentiality, integrity, and availability. Financial data in the Coast Guard general ledgers may be compromised by automated and manual changes that are not adequately controlled. For example, the Coast Guard uses an IT scripting process to address functionality and data quality issues within its core financial system, as necessary, to process and report financial data. During our FY 2011 testing, we noted that some previously identified IT scripting control deficiencies were remediated, while other deficiencies continue to exist. Four key areas continue to impact the Coast Guard IT script control environment, as follows:

- Script testing – limited guidance exists to guide Coast Guard staff in the development of test plans and to support the completion of functional testing;
- Script audit logging – controls supporting audit logs are not consistently implemented to log privileged user actions, and to ensure that only approved scripts are executed;
- Script approvals and recertification – the recertification reviews conducted by the Coast Guard were not comprehensive to include all user roles associated with the Mashups and Dimensions systems. Additionally, the documentation retained in support of the reviews was not adequately completed in accordance with policy throughout the year; and
- Script recording – test and production data is not consistently recorded, and there are limited controls to ensure data accuracy. Additionally, field reconciliation discrepancies are not always consistently documented and explained.

We also noted weaknesses in the script change management process as it relates to the Internal Control over Financial Reporting (ICOFR) process (e.g., the financial statement impact of the changes to Coast Guard's core accounting system through the script change management process). The Coast Guard has not fully developed and implemented procedures to ensure that a script, planned to be run in production, has been through an appropriate level of review to fully assess if it has a financial statement impact.

All of our ITGC findings are described in detail in a separate *Limited Official Use* (LOU) letter provided to the Coast Guard and DHS management.

Related to financial system functionality:

We noted many cases where financial system functionality is inhibiting the Coast Guard's ability to implement and maintain internal controls, notably IT application controls supporting financial data processing and reporting. Financial system functionality limitations increase the difficulty of compliance with Federal financial system requirements and guidelines, notably FFMIA and OMB Circular A-127. Examples of financial system functionality conditions we identified include:

- As noted above, Coast Guard's core financial system configuration management process is not operating effectively due to inadequate controls over IT scripts. The IT script process was instituted as a solution primarily to compensate for system functionality and data quality issues.
- Financial system audit logs are not readily generated and reviewed, as some of the financial systems continue to lack the capability to perform this task efficiently.
- The Coast Guard is unable to routinely query its various general ledgers to obtain a complete population of financial transactions, and consequently must create many manual custom queries that delay financial processing and reporting processes.
- A key Coast Guard financial system is limited in processing overhead cost data and depreciation expenses in support of the property, plant and equipment (PP&E) financial statement line item.
- Production versions of financial systems are outdated and do not provide the necessary core functional capabilities (e.g., general ledger capabilities).
- Financial systems functionality limitations are preventing the Coast Guard from establishing automated processes and application controls that would improve accuracy, reliability, and facilitate efficient processing of certain financial data such as:
  - Ensuring proper segregation of duties and access rights, such as automating the procurement process to ensure that only individuals who have proper contract authority can approve transactions or setting system access rights within the fixed asset subsidiary ledger;

- Maintaining sufficient data to support Fund Balance with Treasury related transactions, including suspense activity;
- Maintaining adequate posting logic transaction codes to ensure that transactions are recorded in accordance with generally accepted accounting principles (GAAP); and
- Tracking detailed transactions associated with intragovernmental business and eliminating the need for default codes such as Trading Partner Identification Number that cannot be easily researched.

Cause/Effect: The current system configurations for many Coast Guard financial systems cannot be easily reconfigured to meet FFMIA, OMB Circular A-127, and DHS security requirements. The conditions supporting our findings collectively limit the Coast Guard's ability to process, store, and report financial data in a manner to ensure accuracy, confidentiality, integrity, and availability. Some of the weaknesses may result in material errors in the Coast Guard's financial data that are not detected in a timely manner through the normal course of business. In addition, because of the presence of IT control and financial system functionality weaknesses, there is added pressure on mitigating controls to operate effectively. Because mitigating controls are often more manually focused, there is an increased risk of human error that could materially affect the financial statements. See Comment **I-A**, *Financial Reporting,* for a discussion of the related conditions causing noncompliance with the requirements of FFMIA. Configuration management weaknesses are also among the principle causes of the Coast Guard's inability to support certain financial statement balances for audit purposes.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria* behind Exhibit V.

Recommendations: We recommend that the DHS Office of Chief Information Officer (OCIO), in coordination with the Office of the Chief Financial Officer (OCFO):

1. Continue to develop and implement policies, procedures, and processes to address scripting weaknesses, including weaknesses related to functional testing, audit logging, approvals, and recertifications, and the documentation and review of script records.
2. For new and updated script procedures, revise associated trainings and provide the training to impacted staff.
3. Continue to improve the script change management process and other associated internal controls as they relate to the financial statement impact of the changes to the CAS suite of financial databases.
4. Make necessary improvements to financial management systems and supporting IT security controls.

Specific recommendations are provided in a separate *Limited Official Use* letter provided to Coast Guard management.

I-C Property, Plant, and Equipment

Background: The Coast Guard maintains approximately 49 percent of all DHS property, plant, and equipment (PP&E), including a large fleet of boats and vessels. Many of the Coast Guard's assets are constructed over a multi-year period, have long useful lives, and undergo extensive routine servicing that may increase their value or extend their useful lives. DHS stewardship PP&E primarily consists of Coast Guard heritage assets, which are PP&E that are unique due to historical or natural significance; cultural, educational, or artistic (e.g., aesthetic) importance; or architectural characteristics. Coast Guard heritage assets consist of both collection type heritage assets, such as artwork and display models, and non-collection type heritage assets, such as lighthouses, sunken vessels, and buildings.

In FY 2011, the Coast Guard continued to execute remediation efforts to address PP&E process and control deficiencies, specifically those associated with vessels, small boats, aircraft, and select construction in process (CIP) projects, and also related to the inventory of heritage assets. Inventory procedures were performed in FY 2011 to assist in the substantiation of existence and completeness of PP&E balances, however, they were not performed over all asset classes (e.g., land, buildings and other structures, and electronic equipment). Additionally, an analysis to ensure the proper accounting of internal use software has not yet been completed. Remediation efforts are scheduled to occur over a multi-year timeframe beyond FY 2011. Consequently, many of the conditions cited below have been repeated from our FY 2010 report.

Conditions: The Coast Guard has not:

Regarding PP&E:

- Established accurate and auditable PP&E balances as of September 30, 2011. In cases where original acquisition documentation has not been maintained, the Coast Guard has not fully implemented methodologies and assumptions to support the value of all PP&E.
- Implemented appropriate controls and related processes to accurately, consistently, and timely record additions to PP&E, (including all costs necessary to place the asset in service e.g., other direct costs), transfers from other agencies, disposals in its fixed asset system, CIP activity, and support the valuation and classification of repairable PP&E.
- Implemented accurate and complete asset identification, system mapping, and tagging processes that include sufficient detail (e.g., serial number) to clearly differentiate and accurately track physical assets to those recorded in the fixed assets system.
- Developed and implemented a process to identify and evaluate all lease agreements to ensure that they are appropriately categorized as operating or capital, and properly reported in the financial statements and related disclosures.
- Properly accounted for improvements and impairments to buildings and structures, capital leaseholds, selected useful lives for depreciation purposes, and appropriate capitalization thresholds, consistent with GAAP.
- Identified and tracked all instances where PP&E accounting is not in compliance with GAAP and prepared a non-GAAP analysis that supports management's accounting policies. This analysis should be maintained and available for audit.

Regarding Heritage Assets:

- Fully designed and implemented policies, procedures, and internal controls to support the completeness, existence, accuracy, and presentation assertions over data utilized in developing required financial statement disclosures and related supplementary information for heritage assets.

Cause/Effect: The Coast Guard has had difficulty establishing its opening PP&E balances primarily because of poorly designed policies, procedures, and processes implemented more than a decade ago, combined with ineffective internal controls, and IT functionality difficulties, See Comment **I-B**, *Information Technology Controls and Financial Systems Functionality.* PP&E was not properly accounted for or tracked, for many years preceding the Coast Guard's transfer to DHS in FY 2003, and now the Coast Guard is faced with the formidable challenge of performing retroactive analyses in order to properly establish the existence, completeness, and accuracy of PP&E. Additionally, the fixed asset module of the Coast Guard's general ledger accounting system is not updated timely for effective tracking and reporting of PP&E on an ongoing basis. As a result, the Coast Guard is unable to accurately account for its PP&E, and provide necessary information to DHS OFM for consolidated financial statement purposes.

The Coast Guard management deferred correction of the stewardship PP&E (heritage assets) weaknesses reported in previous years, and acknowledged that the conditions we reported in prior years remained throughout FY 2011. The lack of comprehensive and effective policies and controls over the identification and reporting of Stewardship PP&E could result in misstatements in the required financial statement disclosures and related supplementary information for Stewardship PP&E.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria* behind Exhibit V.

Recommendations: We recommend that the Coast Guard:

Regarding PP&E:

1. Continue to implement remediation efforts associated with establishing PP&E balances, including designing and implementing inventory procedures over all PP&E categories and implementing methodologies, including the use of Statement of Federal Financial Accounting Standard (SFFAS) No. 35, to support the value of all PP&E;
2. Implement appropriate controls and related processes to accurately and timely record additions to PP&E, transfers from other agencies, improvements, impairments, capital leases, indirect costs, depreciable lives, disposals in its fixed assets system, and valuation and classification of repairable PP&E. Additionally, continue to implement remediation efforts associated with control over the completeness, existence, accuracy, and valuation of all CIP related balances;
3. Adhere to procedures to timely update the fixed asset module of the Coast Guard's general ledger accounting system to improve tracking and reporting of PP&E on an ongoing basis. Implement processes and controls to record any identifying numbers in the fixed asset system at the time of asset purchase to facilitate identification and tracking, and to ensure that the status of assets is accurately tracked in the subsidiary ledger;
4. Develop and implement a process to identify and evaluate all lease agreements to ensure that they are appropriately categorized as operating or capital, and are properly reported in the financial statements and related disclosures;
5. Ensure that appropriate supporting documentation is maintained and readily available to support PP&E life-cycle events (e.g., improvements, in-service dates, disposals, etc.); and
6. Perform and document a non-GAAP analysis for all instances where accounting policies are not in compliance with GAAP.

Regarding Stewardship PP&E:

1. Design and implement policies, procedures, and internal controls to support the completeness, existence, accuracy, and presentation and disclosure assertions related to the data utilized in developing disclosures and related supplementary information for Stewardship PP&E that is consistent with GAAP.

I-D Environmental and Other Liabilities

Background: The Coast Guard's environmental liabilities consist of environmental remediation, cleanup, and decommissioning and represent approximately $973 million or 93 percent of total DHS environmental liabilities. Environmental liabilities are categorized as relating to shore facilities or vessels. Shore facilities include any facilities or property other than ships (e.g., buildings, fuel tanks, lighthouses, small arms firing ranges, etc.). During FY 2011, the Coast Guard continued to implement a multi-year remediation plan to address process and control deficiencies related to environmental liabilities. In FY 2011, progress was made with respect to implementation of policies and procedures; however, the majority of the conditions cited in our FY 2010 report remain.

The Coast Guard estimates accounts payable by adjusting the prior year accrual estimate based on an analysis of actual payments made subsequent to September 30 of the prior year.

The Coast Guard's contingent legal liability balance is comprised of estimates associated with various administrative proceedings, legal actions, and tort claims that arise in the normal course of Coast Guard operations.

A component of Coast Guard's accrued payroll and benefits liability balance is annual leave. Annual leave is composed of earned annual and other vested compensatory leave that is accrued as it is earned. Subsequently, as leave is taken, the liability is reduced.

Conditions: We noted the following internal control weaknesses related to environmental and other liabilities.

The Coast Guard has not:

Regarding environmental liabilities:

- Fully supported the completeness, existence, and accuracy assertions of the data utilized in developing the estimate for the FY 2011 environmental liabilities account balance.
- Fully implemented policies and procedures to develop, prepare, record, and periodically review environmental liability estimates related to shore facilities and vessels. Specifically, procedures to confirm the existence of and legal liability for environmental damage/contamination sites, ensure the completeness of the environmental site universe, and verify the historical accuracy of assumptions used and estimates made for environmental liabilities.

Regarding other liabilities:

- Designed a methodology used to estimate accounts payable that considers and uses all potentially relevant current year data. As a result, current year data that may have a significant impact on the estimate could be overlooked and not identified until a true-up is performed in the subsequent year.
- Ensured that policies and procedures associated with management's review of the underlying data supporting contingent legal and payroll liability (i.e., unfunded leave) balances are fully implemented and operating effectively. Specifically, deficiencies in management's review attributed to errors in the underlying data supporting the interim contingent legal liability and unfunded leave balances.

Cause/Effect: The Coast Guard has not fully completed its remediation plans to develop, document, and implement policies and procedures to, prepare, and record environmental liability estimates in accordance with applicable accounting standards. As a result, the Coast Guard is unable to assert to the accuracy of its environmental liability balances as stated in the September 30, 2011 balance sheet, and provide necessary information to OFM for DHS financial statement purposes.

The Coast Guard's methodology used to estimate accounts payable is based on the prior year estimate, validated via a subsequent payment analysis, and does not consider or use all applicable current year data. Without consideration of applicable current year data, a misstatement in the accounts payable estimate may occur and not be identified in a timely manner (i.e., until a true-up is performed in a subsequent period).

The Coast Guard did not fully adhere to existing policies and procedures associated with the review of underlying data supporting interim contingent legal and payroll liability balances. A lack of adequate management review over the underlying data supporting account balances increases the risk that a misstatement may go undetected.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria* behind Exhibit V.

Recommendations: We recommend that the Coast Guard:

Regarding environmental liabilities:

Fully implement policies, procedures, processes, and controls to ensure the identification and recording of all environmental liabilities, to define the technical approach, to establish cost estimation methodology, and to develop overall financial management oversight of its environmental remediation projects. Consider the "Due Care" requirements defined in Federal Accounting Standards Advisory Board (FASAB) Technical Release No. 2 *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*. The policies should include procedures to:

1. Ensure the proper calculation and review of cost estimates for consistency and accuracy in financial reporting, including the use of tested modeling techniques, use of verified cost parameters, and assumptions;
2. Periodically validate estimates against historical costs; and

3. Ensure that detailed cost data is maintained and reconciled to the general ledger.

Regarding other liabilities:

1. Analyze and make appropriate improvements to the methodology used to estimate accounts payable to include potentially relevant current year data, and support all assumptions and criteria with appropriate documentation used to develop and subsequently validate the estimate for financial reporting; and
2. Adhere to existing policies and procedures associated with the review of underlying data supporting contingent legal and accrued payroll and benefits liabilities.

I-E Budgetary Accounting

Background: Budgetary accounts are a category of general ledger accounts where transactions related to the receipt, obligation, and disbursement of appropriations and other authorities to obligate and spend agency resources are recorded. Each Treasury Account Fund Symbol (TAFS) with separate budgetary accounts must be maintained in accordance with OMB and U.S. Treasury guidance. The Coast Guard has over 80 TAFS covering a broad spectrum of budget authority, including annual, multi-year, and no-year appropriations; and several revolving, special, and trust funds.

Conditions: We noted the following internal control weaknesses related to budgetary accounting, which were repeated from our FY 2010 report. The Coast Guard has not:

- Fully implemented policies, procedures, and internal controls over its process for validation and verification of undelivered order (UDO) balances. Recorded obligations and UDO balances were not always complete, valid, or accurate, and proper approvals are not always maintained.
- Finalized and implemented policies and procedures to monitor unobligated commitment activity in CAS throughout the fiscal year.
- Designed and implemented effective procedures, processes, and internal controls to verify the completeness and accuracy of the year-end obligation "pipeline" which are obligations executed on or before September 30, but not recorded in the Coast Guard's CAS, and to record all executed obligations. These deficiencies affected the completeness, existence, and accuracy of the year-end "pipeline" adjustment that was made to record obligations executed before year end.

Cause/Effect: A lack of fully implemented policies, procedures, and internal controls surrounding commitments, obligations, UDOs, delivered orders, and disbursements has caused various control gaps in the internal control environment. Weak controls in budgetary accounting, and associated contracting practices increase the risk that the Coast Guard misstates budgetary balances, and unintentionally violate the *Anti-deficiency Act* by overspending its budget authority. Also, the untimely release of commitments may prevent funds from being used for other more critical needs.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria* behind Exhibit V.

Recommendations: We recommend that the Coast Guard:

1. Continue to improve policies, procedures, and the design and effectiveness of controls in both accounting and contracting related to processing obligation transactions, and periodic review and validation of UDOs. Emphasize to all fund and program managers the need to perform effective reviews of open obligations, obtain proper approvals, and retain supporting documentation;
2. Finalize policies and procedures to periodically review commitments, and make appropriate adjustments in the financial system; and
3. Improve procedures, processes, and internal controls to verify the completeness and accuracy of the year-end obligation "pipeline" adjustment to record all executed obligations for financial reporting.

Dear Secretary Napolitano:

In accordance with your delegation of responsibilities to me, I have directed an evaluation of the internal controls at the United States Coast Guard (USCG) in effect during the fiscal year ended September 30, 2011. This evaluation was conducted in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control*, Revised December 21, 2004. Based on the results of this evaluation, the USCG provides the following assurance statements:

Reporting Pursuant to FMFIA Section 2. 31 U.S.C.3512 (d)(2)

USCG provides reasonable assurance that internal controls are achieving their intended objectives, **with the exception of the following reportable conditions found**:

a) **Compliance with Laws and Regulations**: The USCG has identified and reported Anti-Deficiency Act (ADA) violations in Fiscal Year 2011. The USCG has collaborated with DHS and has adhered to DHS policy with regards to investigating and resolving these issues. The USCG continues to develop and enhance enterprise-wide policies and procedures for funds control and train personnel in newly implemented procedures and processes. The USCG has conducted a robust risk assessment, focusing specifically on funds control and will assess the effectiveness of controls early in Fiscal Year 2012. The USCG is committed to strengthening controls that will assist in the prevention and early detection of potential future ADA violations.

b) **Financial Management Systems**: As detailed under the FMFIA Section 4 below.

Reportable Conditions a) and b) are considered to be material weaknesses.

Reporting Pursuant to the DHS Financial Accountability Act. P.L. 108-330

As part of the OMB A-123, Appendix A assessment, the USCG evaluated corrective actions taken and assessed whether previously reported material weaknesses continue to exist. In cases where reportable conditions and material weaknesses continue to exist, the USCG focused on identifying significant financial reporting areas where assurance can be provided and developed interim compensating measures to support the Secretary's commitment to obtain a balance sheet audit opinion.

Tests of Operational Effectiveness:

- USCG conducted Tests of Operational Effectiveness for internal controls over financial reporting around certain line items on the Balance Sheet to include: Funds Balance with Treasury (FBwT), Accounts Payable, Accounts Receivable, Investments, Capitalized Property, Construction in Progress, Operating Materials and Supplies, Repairable Spares, Contingent Legal Liabilities, Civilian Payroll, Military Payroll, and Actuarial Medical and Pension Liabilities. The assessment also included operational effectiveness testing around the Core Accounting Suite script management process. The results of testing were documented in the Summary of Aggregated Deficiencies and have been provided to the Department as required.

Based on the scope of this assessment, the USCG provides reasonable assurance that compensating measures were effective, **with the exception of the following reportable conditions found:**

a) **Property Management**: The USCG is unable to assert to internal controls over the Acquisition, Construction, and Improvement (AC&I) Construction in Progress (CIP) and Real Property processes. In FY 2011, the USCG supported the accuracy of the Personal Property balance, executed two additional Coast Guard-wide physical inventories, and performed observations of internal controls over physical inventory procedures. The USCG's CIP balance is at a 5-year low and all delivered assets are being capitalized within the established 90-day window from delivery. Finally, the USCG cleared the material weakness for Operating Materials and Supplies (OM&S) by changing the accounting treatment of field-held OM&S to the purchases method, evaluating inventory procedures and results, evaluating valuation support for OM&S, and asserting to the completeness, existence, and valuation of the OM&S balance.

b) **Budgetary Resources Management**: The primary budgetary resource management system is not designed to manage and maintain complete budgetary accounting data and does not permit the necessary level of funds control, creating a risk for unidentified ADA violations.

c) **Environmental Liabilities**: The USCG lacks sufficient documented policies and procedures for Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) cases. The USCG does not have sufficient support related to environmental liabilities resulting in potentially unrecorded and unidentified liabilities.

d) **Financial Systems**: The USCG does not have an adequate comprehensive, integrated accounting system to comply with the Federal Financial Management Improvement Act (FFMIA) system requirements and the USSGL at the transaction level. In FY 2011, the USCG assessed and performed internal control testing on general controls. However, consistent with the prior year, the lack of testing on application controls does not provide assurance that internal controls over financial systems are adequate to detect or prevent material errors in the financial statements. A number of non-conformances are a root cause that will limit the USCG's ability to fully remediate material weaknesses in many financial reporting processes. Accordingly, this condition also represents a material weakness in internal control over financial reporting.

Reportable Conditions a) through d) are considered to be material weaknesses.

Resolution of prior year Material Weaknesses:

The USCG has reduced the following areas from Material Weaknesses in FY 2010 to Reportable Conditions in FY 2011:

a) **Funds Balance with Treasury (FBwT) / General Ledger (GL) Management Function**: As part of the FY 2011 internal control assessment process, the USCG management identified significant deficiencies in the internal controls over financial reporting for FBwT. Specifically, the lack of effectively designed and implemented processes and controls for the processing and supporting of Intra-Governmental Payment and Collection (IPAC) transactions, the use of suspense accounts, processing manual journal vouchers, and the complexity/obsolescence of systems that capture financial data continue to limit the USCG's ability to fully rely on internal controls for financial reporting in these areas. Although the assessment results indicated further internal control improvements are necessary, these deficiencies in aggregate did not rise to the level of a Material Weakness for FY 2011.

b) **Receivables Management / Revenue Management**: As part of the internal control assessment process, the USCG management identified significant deficiencies in the internal controls over financial reporting for the Accounts Receivable processes. Specifically, the lack of policy and procedures for processing reimbursable transactions, allowance for doubtful accounts and interest receivable processes, the lack of effectively designed and implemented processes and controls for processing and supporting IPAC transactions and the complexity/obsolescence of systems that capture financial data continue to limit the USCG's ability to fully rely on internal controls for financial reporting in these areas. Although the assessment results indicated further internal control improvements are necessary, these deficiencies in aggregate did not rise to the level of a Material Weakness for FY 2011.

c) **Accounts Payable**: As part of the internal control assessment process, the USCG management identified significant deficiencies in the internal controls over financial reporting for the Accounts Payable processes. Specifically, inconsistent compliance with policies and procedures by business units, the lack of effectively designed and implemented processes and controls for processing and supporting IPAC transactions, lack of effective controls for calculating period end accruals, and the complexity/obsolescence of systems that capture financial data continue to limit the USCG's ability to fully rely on internal controls for financial reporting in these areas. Although the assessment results indicated further internal control improvements are necessary, these deficiencies in aggregate did not rise to the level of a Material Weakness for FY 2011.

Reporting Pursuant to FMFIA Section 4. 31 U.S.C.3512 (d)(2)(B)

The USCG's financial management systems do not conform to government-wide requirements. The areas of non-conformance listed below have been documented. The USCG is continuing to execute and update, as appropriate, mission action plans (MAPs) to remediate the following:

a) **U.S. Standard General Ledger (USSGL)**: The designs of the USCG's financial and mixed systems do not fully reflect financial information classification structures that are consistent with the USSGL and provide for tracking of specific program expenditures.

b) **Integration of Financial and Mixed Systems**: The lack of integration of the USCG's financial and mixed systems precludes the use of common data elements to meet reporting requirements, and to collect, store, and retrieve financial information. Similar kinds of transactions are not processed throughout the systems using common processes, which could result in data redundancy and inconsistency.

c) **Financial Reporting and Budgets**: The USCG's financial and mixed systems do not allow for financial statements and budgets to be prepared, executed, and reported in accordance with the requirements prescribed by the OMB, the U.S. Department of Treasury, and/or the Federal Accounting Standards Advisory Board (FASAB).

d) **Laws and Regulations**: The USCG's financial and mixed systems do not include a system of internal controls that ensures: resource use and financial reporting are consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; reliable data is obtained, maintained, and disclosed in reports; and transactions are processed in accordance with Generally Accepted Accounting Principles (GAAP).

e) **System Adaptability**: The USCG does not evaluate how effectively and efficiently the financial and mixed systems support USCG's changing business practices and make appropriate modifications to its information systems.

f) **Risk Assessment and Security**: The USCG has legacy financial and mixed systems that were developed without the benefit of today's security practice requirements. Because USCG lacks modern security evaluation software, intensive manual intervention is required to ensure proper security controls, oversight, and auditing occurs to meet OMB and DHS security policies. Some of the legacy financial and mixed systems were developed prior to the implementation of some of these regulations, and are therefore, not designed to comply with them.

g) **Documentation and Support**: Adequate systems maintenance, technical systems documentation, training, and user support is not consistently available to enable users of all of the financial and mixed systems to understand, maintain, and operate the systems in an effective and efficient manner.

h) **Physical and Logical Controls**: The USCG's financial and mixed systems contain weaknesses in the standardization of physical and logical controls and segregation of duties.

i) **Cost Accounting Integration:** The USCG's financial and mixed systems do not allow for the conformance with Managerial Cost Accounting Concepts and Standards Statement of Federal Financial Accounting Standards Number 4 (SFFAS 4).

Reporting Pursuant to the Reports Consolidation Act. Section 3516(e)

The USCG provides reasonable assurance that the performance data used in the Annual Financial Report are complete and reliable.

Very Respectfully,

R. J. Papp, Jr.
Commandant,
United States Coast Guard

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