

**UNITED STATES CAPITOL POLICE
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORTS
FISCAL YEARS 2005 AND 2004
OIG-2007-01**

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United States Capitol Police Board

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying Statements of Budgetary Resources of the United States Capitol Police (USCP) for the years ended September 30, 2005 and 2004. These financial statements are the responsibility of USCP management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary resources of the USCP at September 30, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated July 25, 2006, on USCP internal control over financial reporting and on our tests of its compliance with provisions of laws and regulations. Our reports on internal control and compliance are an integral part of an audit conducted in accordance with *Government Auditing Standards* and, in considering the results of our audits, those reports should be read together with this report.

COTTON & COMPANY LLP

A handwritten signature in black ink, appearing to read "Alan Rosenthal".

Alan Rosenthal, CPA
Partner

July 25, 2006
Alexandria, Virginia

**UNITED STATES CAPITOL POLICE
STATEMENTS OF BUDGETARY RESOURCES
FISCAL YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

	<u>FY 2005</u>	<u>FY 2004</u>
<u>Budgetary Resources</u>		
Budget Authority (Note 3):		
Appropriations Received	\$243,328,000	\$221,100,000
Rescission	(1,858,624)	(1,304,490)
Net Transfer	<u>4,087,592</u>	<u>(2,432,343)</u>
	<u>245,556,968</u>	<u>217,363,167</u>
Unobligated Balance (Note 4), Beginning of Period	<u>34,752,287</u>	<u>77,495,729</u>
Spending Authority From Offsetting Collections (Note 5)	<u>359,901</u>	<u>231,419</u>
Adjustments (Note 6), Recoveries of Prior-Year Obligations	12,604,451	1,969,419
Permanently Not Available	<u>12,604,451</u>	<u>(1,339,473)</u>
	<u>629,946</u>	
Total Budgetary Resources	<u>\$293,273,607</u>	<u>\$295,720,261</u>
<u>Status of Budgetary Resources</u>		
Obligations Incurred (Note 7), Direct Exempt from Apportionment	\$246,192,671	\$260,967,974
Unobligated Balance (Note 8), Exempt from Apportionment	43,465,304	29,878,584
Expired Authority	<u>3,615,632</u>	<u>4,873,703</u>
	<u>47,080,936</u>	<u>34,752,287</u>
Total Status of Budgetary Resources	<u>\$293,273,607</u>	<u>\$295,720,261</u>
<u>Relationship of Obligations to Outlays</u>		
Obligated Balance, Net, Beginning of Period	<u>\$86,034,689</u>	<u>\$60,495,601</u>
Obligated Balance, Net, End of Period:		
Undelivered Orders	34,365,005	75,876,356
Accounts Payable	<u>19,062,267</u>	<u>10,158,333</u>
	<u>53,427,272</u>	<u>86,034,689</u>
Total Obligations	<u>\$139,461,961</u>	<u>\$146,530,290</u>
Outlays (Note 9):		
Disbursements, Non-Salaries	\$57,352,607	\$57,115,103
Disbursements, Salaries	204,501,437	183,735,948
Collections	<u>(366,900)</u>	<u>(318,263)</u>
Net Outlays	<u>\$261,487,144</u>	<u>\$240,532,788</u>

The accompanying notes are an integral part of these statements.

UNITED STATES CAPITOL POLICE
NOTES TO STATEMENTS OF BUDGETARY RESOURCES
FISCAL YEARS ENDED SEPTEMBER 30, 2005 AND 2004

Note 1. Description of Reporting Entity

The mission of the United States Capitol Police (USCP) is “to protect the Congress, its legislative processes, Members, employees, visitors, and facilities from crime, disruption, or terrorism.” The Capitol Police Board, comprised of the Sergeant at Arms of the United States Senate, the Sergeant at Arms of the United States House of Representatives, and the Architect of the Capitol (AoC), oversees USCP; the Chief of the Capitol Police is a non-voting member of the Board. The Chief of Police reports to the Board and is responsible for administering the department in accordance with applicable laws and regulations and ensuring that the organization meets its objectives.

The Chief of Operations and the Chief Administrative Officer assist the Chief of Police. The Chief Administrative Officer is responsible for supervising administrative functions that support the department’s mission, including information systems, financial management, human resources, training, and logistical concerns. The Chief of Operations directs the work of law enforcement, security, and emergency response operations. Four bureaus perform direct mission work and report to the Chief of Operations:

- **Operational Services Bureau (OSB).** Responsible for providing specialized and emergency response to support the department’s operational needs. OSB operates the Patrol/Mobile Response Division and the Hazardous Incident Response Division.
- **Protective Services Bureau (PSB).** Consists of the Investigations Division and the Dignitary Protection Division and is responsible for intelligence gathering, investigation, dignitary protection, and threat assessment.
- **Security Services Bureau (SSB).** Responsible for designing, installing, maintaining, and operating technologically advanced security systems used to protect the Legislative Branch of government. SSB consists of the Physical Security Division, Construction Security Division, and Technical Countermeasures Division.
- **Uniformed Services Bureau (USB).** Responsible for providing security for the Capitol and Congressional Office Buildings, suppressing crime, apprehending violators, enhancing community relations, conducting preliminary investigations, recovering stolen property, and providing non-enforcement police services. USB consists of the House Division, Senate Division, and Capitol Division.

The House Committee on Administration and the Senate Committee on Rules and Administration provide legislative oversight for the USCP. USCP is funded jointly by the U.S. Congress as annual budget requests are made to the House Appropriations Committee and the Senate Subcommittee on the Legislative Branch. USCP relies on other Legislative Branch agencies for support services not funded as part of the USCP annual budget.

AoC operates and maintains the USCP headquarters building, leases other office space utilized by the USCP, and provides furniture and other fixtures within the buildings. The Office of the Senate Sergeant at Arms provides for a portion of the USCP’s computer and telecommunication infrastructure services and equipment. The Attending Physician of the Capitol provides medical support for physical exams for USCP personnel. In addition, the Department of Homeland Security pays for basic recruit officer training. As a result, these

budgetary resources and associated obligations and outlays are not presented on the Statement of Budgetary Resources.

Note 2. Summary of Significant Accounting Policies: Basis of Accounting

The Statement of Budgetary Resources has been prepared using financial data maintained by USCP. The Statement of Budgetary Resources has been prepared in accordance with accounting principles generally accepted in the United States of America as applicable to the federal government and has been prepared in accordance with guidance prescribed in Office of Management and Budget (OMB) Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. That bulletin constitutes of generally accepted accounting principles for the federal government as specified by the AICPA's Statement on Auditing Standards 69 (as amended), *The Meaning of Presents Fairly in Conformity with Generally Accepted Accounting Principles*.

Note 3. Budget Authority

Appropriations

USCP finances its operations from appropriations that provide the authorization to expend funds for specified purposes. As a Legislative Branch agency, USCP appropriations are exempt from apportionment by OMB.

Public Laws (PL) 108-83 and 108-447 authorized two annual appropriations and one no-year appropriation to fund USCP operations during Fiscal Years (FYs) 2005 and 2004. Division H, Section 168, of PL 108-199 applied a rescission of 0.59 percent to the FY 2004 annual appropriations, and Division H, Section 10335, of PL 108-447 applied a rescission of 0.8 percent to the FY 2005 annual appropriations.

Fiscal Year 2004	Appropriation	Rescission	Total
Salaries and Benefits Expense	\$197,600,000	\$(1,165,840)	\$196,434,160
General Expense	21,755,000	(138,650)	21,616,350
No-Year General Expense	1,745,000		1,745,000
Total	\$221,100,000	\$(1,304,490)	\$219,795,510

Fiscal Year 2005	Appropriation	Rescission	Total
Salaries and Benefits Expense	\$ 203,440,000	\$(1,627,520)	\$201,812,480
General Expense	28,888,000	(231,104)	28,656,896
No-Year General Expense	11,000,000		11,000,000
Total	\$243,328,000	\$(1,858,624)	\$241,469,376

The annual Salaries and Benefits appropriation is provided to the Chief of Police for personnel costs and is disbursed on behalf of the USCP by the Department of Agriculture, National Finance Center. The annual General Expense appropriation is provided to the Chief of Police for general mission and support costs and is disbursed by USCP. The No-Year General Expense appropriation is provided to the Chief of Police for security equipment and is disbursed by USCP.

Intra-Governmental Transfers

Transfers among budget accounts are provided in statute and processed by the U.S. Treasury. The transfer to the AoC was authorized by PL 108-83, Section 1103 (a)(2), and funds the purchase of an Alternate Computer Center for USCP. Transfers from the House and Senate to the USCP Salaries and Benefits appropriations represent residual funds from prior-year personnel costs.

<u>Transfer From</u>	<u>Transfer To</u>	<u>FY 2004</u>
USCP Capitol Campus Security	Architect of the Capitol	\$10,000,000
U.S. House of Representatives (Salaries)	USCP Salaries and Benefits	3,772,398
U.S. Senate (Salaries)	USCP Salaries and Benefits	3,795,259
	Net Transfers	<u><u>\$2,432,343</u></u>

AoC transferred funds to the USCP Emergency Response Fund for the purchase of security-screening equipment.

<u>Transfer From</u>	<u>Transfer To</u>	<u>FY 2005</u>
Architect of the Capitol	No-Year Capitol Visitor Center	\$4,087,592
	Net Transfers	<u><u>\$4,087,592</u></u>

Intra-Entity Transfers

The intra-entity transfer from the Salaries and Benefits appropriation to the General Expense appropriation resulted from savings on personnel costs and was used to fund the "Ricin security event" and reduce the FY 2005 appropriation requirement. The intra-entity transfers from the General Expense and No-Year Salaries and Benefits appropriations to the Salaries and Benefits appropriation were used to fund personnel costs related to the increased security threat during the last quarter of FY 2004.

<u>Transfer From</u>	<u>Transfer To</u>	<u>FY 2004</u>
FY 2004 Salaries and Benefits	FY 2004 General Expense	\$11,168,000
FY 2004 General Expense	FY 2004 Salaries and Benefits	\$840,000
No-Year Salaries and Benefits	FY 2004 Salaries and Benefits	\$4,200,000

The intra-entity appropriation transfers from FY 2004 Salaries and Benefits to No-Year Salaries and Benefits and the transfer from No-Year Salaries and Benefits to FY 2005 Salaries and Benefits were used to fund personnel costs related to the increased security threat during the first quarter of FY 2005 and the January Presidential Inauguration.

<u>Transfer From</u>	<u>Transfer To</u>	<u>FY 2005</u>
FY 2004 Salaries and Benefits	No-Year Salaries and Benefits	\$1,400,000
No-Year Salaries and Benefits	FY 2005 Salaries and Benefits	\$5,400,000

Note 4. Beginning Unobligated Balance

The Emergency Response Fund and the Security Enhancement Fund were available for design and installation of security systems for the U.S. Capitol Campus.

Annual Appropriations	FY 2005	FY 2004
FY 2002 General Expense		\$270,841
FY 2003 General Expense	\$167,137	275,973
FY 2003 Salaries and Benefits	4,706,565	4,199,788
FY 2004 General Expense	370,096	
FY 2004 Salaries and Benefits	1,585,433	
Total Annual Appropriations	\$6,829,231	\$4,746,602

FY 2001/2002 International Monetary Fund \$144

FY 2004/2005 General Expense \$152,303

No-Year Appropriations			
Emergency Response Fund			
Capitol Campus Security		\$4,406,097	\$17,042,592
Capitol Visitors Center		555,739	756,309
Salaries and Benefits		10,565,000	14,765,000
Total Emergency Response Fund		\$15,526,836	\$32,563,901
Security Enhancement Fund		\$3,213,231	\$4,547,490
Capitol Perimeter Security		29,050	103,480
General Expense		9,001,636	35,534,112
Other No-Year Appropriations		\$12,243,917	\$40,185,082
Total Beginning Unobligated Balance		\$34,752,287	\$77,495,729

Note 5. Spending Authority from Offsetting Collections

Multi-year General Expense funds were established in FYs 2005 and 2004 as the USCP was granted authority to use reimbursements from the disposition of surplus property and credit receipts related to the sale and reimbursement into an account for general expenses. The budget authority expires at the end of FYs 2005 and 2006, respectively.

USCP collected refunds from current and former employees for prior-year salary and benefit costs. In addition, USCP received prior-year rebates from Citibank Government Card Services and Nextel Communications based on the percentage of expenses incurred during the fiscal year.

	<u>FY 2005</u>	<u>FY 2004</u>
Proceeds from Sale of Assets	\$86,239	\$152,303
Collections from Prior-Year Refunds, FY 2002	328	
Collections from Prior-Year Refunds, FY 2003	6,103	23,271
Collections from Prior-Year Refunds, FY 2004	24,595	
Collections from Prior-Year Refunds, No-Year	90,637	
Reimbursements	152,327	55,517
Total Spending Authority from Offsetting Collections	\$359,901	\$231,419

Note 6. Adjustments

Recoveries of Prior Year Obligations

Recoveries of prior-year obligations represent the amount of budget authority obligated in a prior year and de-obligated during FYs 2005 and 2004. Recoveries occurred when it was determined that the full or partial amounts of original obligations could be cancelled. Once cancelled, the funds resulted in additional budgetary resources available for obligation in the current fiscal year. Recoveries to prior-year obligations during FYs 2005 and 2004 were \$12,604,451 and \$1,969,419, respectively.

Permanently Not Available

Multi-year appropriated funds from the International Monetary Fund, FY 2002 USCP Salaries and Benefits appropriation, and FY 2002 USCP annual General Expense appropriation expired at the end of FY 2002 and were canceled and made permanently unavailable as of September 30, 2004. The funds were returned to the U.S. Treasury General Fund in FYs 2005 and 2004.

	<u>FY 2005</u>	<u>FY 2004</u>
FY 2001/2002 International Monetary Fund	\$(144)	\$(144)
FY 2002 General Expense Appropriation	(510,853)	(510,853)
FY 2002 Salaries and Benefits Appropriation	(828,476)	(828,476)
Total Permanently Not Available	\$0	\$(1,339,473)

Note 7. Obligations Incurred

FYs 2005 and 2004 obligations were incurred for the following goods and services to accomplish the USCP mission.

	<u>FY 2005</u>	<u>FY 2004</u>
Personnel Compensation	\$158,220,900	\$151,898,713
Personnel Benefits	46,565,698	43,079,516
Travel and Transportation	4,002,595	5,279,062
Rent, Communications, and Utilities	1,971,717	1,518,285
Printing and Reproduction	68,081	
Other Contractual Services	18,963,592	18,295,351
Supplies and Materials	5,504,638	6,899,497
Equipment	10,870,450	24,561,994
Other Structures		9,435,556
Unvouchered Amount	25,000	
Total Obligations Incurred	\$246,192,671	\$260,967,974

Note 8. Unobligated Balance

Exempt from Apportionment

Unobligated balances for the FYs 2005 and 2004 annual appropriations expire after September 30, 2005 and 2004, respectively. Multi-year appropriations expire after September 30, 2005, and 2006. After expiration, the appropriations remain available for 5 years before they are cancelled and funds returned to the U.S. Treasury General Fund. The unobligated balance for security-related no-year appropriations remains available until expended and continues to fund future obligations consistent with the purpose and availability of the applicable appropriations.

	<u>FY 2005</u>	<u>FY 2004</u>
Annual Appropriations		
Salaries and Benefits	\$4,243,468	\$1,585,433
General Expense	445,942	370,096
Total Annual Appropriations	\$4,689,410	\$1,955,529
 FY 2004/2005 General Expense Appropriation	 \$97	 \$152,303
FY 2005/2006 General Expense Appropriation	86,239	
Total Multi-Year Appropriations	\$86,336	\$152,303
 No-Year Appropriations		
Emergency Response Fund		
Capitol Campus Security	\$2,651,623	\$4,406,097
Capitol Visitors Center	12,491,007	555,739
Salaries and Benefits	6,565,000	10,565,000
Total Emergency Response Fund	\$21,707,630	\$15,526,836
 Security Enhancement Fund	 \$2,224,402	 \$3,213,231
Capitol Perimeter Security	15,592	29,050
General Expense	14,741,934	9,001,635
Other No-Year Appropriations	\$16,981,928	\$12,243,916
 Total Appropriations Exempt from Apportionment	 \$43,465,304	 \$29,878,584

Expired Authority

Expired Authority represents prior-year annual appropriations that remain available for 5 years before they are cancelled and returned to the U.S. Treasury General Fund. The balance includes prior-year recoveries and refunds of prior-year costs.

	<u>FY 2005</u>	<u>FY 2004</u>
FY 2003 Salaries and Benefits Appropriation	2,948,758	\$4,706,565
FY 2003 General Expense Appropriation	353,170	167,138
FY 2004 Salaries and Benefits Appropriation	156,779	
FY 2004 General Expense Appropriation	156,925	
Total Expired Authority	\$3,615,632	\$4,873,703

Note 9. Net Outlays

Net outlays represent cash payments to both public and federal entities, net of collections, to fund USCP operations. Intra-governmental net outlays include goods and services purchased from Executive Branch and other Legislative Branch agencies. Significant net outlays to the general public include personnel costs, training, and travel payments. Outlays to the public for miscellaneous purchases using credit cards were disbursed to the Department of Veterans Affairs. Significant intra-governmental net outlays were with the following agencies:

- U.S. Department of Agriculture, National Finance Center, for administering the USCP payroll.
- U.S. Department of Transportation for support to the USCP Security Services Bureau for design, development, and installation of various Capitol campus security systems and administration of the Employee Transit Benefit Program.
- U.S. Department of Labor for reimbursement of benefits and other payments made from the Employees' Compensation Fund.

- U.S. Department of Homeland Security, Federal Law Enforcement Training Center, for training facility, operational support, supplies, and training.
- Government Accountability Office for the use of the Federal Financial System accounting system and technical support services.
- U.S. Department of Defense for firearms and explosive training, command vehicles, and radio communications.
- Federal Occupational Health for the Fitness Center coordinator.
- AoC for renovations to the USCP headquarters building.
- General Services Administration for office supplies.
- U. S. Treasury for training.
- U.S. Environmental Protection Agency for the Ricin study.
- U.S. Department of the Interior, National Business Center, to implement a new accounting system and asset management system.

Intra-Governmental Net Outlays	<u>FY 2005</u>	<u>FY 2004</u>
U. S. Department of Agriculture	\$243,245	\$235,557
U. S. Department of Transportation	14,968,540	10,832,900
U. S. Department of Labor	1,587,708	1,605,156
U. S. Department of Homeland Security	673,214	859,509
U. S. Government Accountability Office	411,902	857,352
U. S. Department of Defense	1,364,422	2,205,546
Federal Occupational Health	81,393	68,347
Architect of the Capitol	177,995	120,142
General Services Administration	16,128	241,824
U. S. Department of the Treasury	44,239	102,087
U. S. Environmental Protection Agency	650,000	
U. S. Department of Interior	2,367,411	
Other	246,817	292,205
Total Intra-Governmental Net Outlays	\$22,833,014	\$17,420,625
Net Outlays to the Public	238,654,130	223,112,163
Total Net Outlays	\$261,487,144	\$240,532,788



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United States Capitol Police Board

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

We have examined the effectiveness of the United States Capitol Police (USCP) internal control over financial reporting as of September 30, 2005, and September 30, 2004, based on the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States. USCP management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on effectiveness of internal control based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and *Government Auditing Standards*, issued by the Comptroller General of the United States. Thus, our examination included obtaining an understanding of internal control over financial reporting, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

USCP lacked policies and procedures to ensure that payroll activity was processed consistently and adequately supported. We believe such a condition represents a material weakness. A material weakness is a condition that precludes USCP's internal control from providing reasonable assurance that material misstatements in the financial statements will be prevented or detected on a timely basis. We provide details on this material weakness (Finding No. 1) in an attachment to this report.

We also noted two reportable conditions identified during the examination (Finding Nos. 2 and 3) that we do not consider to be material weaknesses. USCP had incomplete financial management policies, methods, and procedures, and information system controls did not ensure complete, accurate, and timely reporting of financial information. We consider these matters to be reportable conditions. A reportable condition is a matter coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect an agency's ability to record, process, summarize, and report financial data consistent with management assertions in the financial statements.

In our opinion, because of the effect of the material weakness described in the fourth paragraph on achieving objectives of the control criteria, USCP had not maintained effective internal control over financial reporting as of September 30, 2005, and September 30, 2004, based on *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States.

~~This report is intended solely as information for and use by USCP, its management, Members of the United States Congress, and the Comptroller General of the United States and is not intended to be, and should not be, used by anyone other than these specified parties.~~

COTTON & COMPANY LLP



Alan Rosenthal, CPA
Partner

July 25, 2006
Alexandria, Virginia

**REPORT ON INTERNAL CONTROL WEAKNESSES
FISCAL YEAR 2005 AND 2004 FINANCIAL STATEMENT AUDIT
UNITED STATES CAPITOL POLICE**

In performing the Fiscal Year (FY) 2005 and 2004 financial statement audits of the United States Capitol Police (USCP), we identified three reportable conditions. We consider one of these to be a material weakness. We report these findings here.

We also reported the three conditions in the FY 2003 audit report. USCP has made some progress toward implementing recommendations. The material weakness associated with payroll processing still, however, existed. Therefore, we recommend that the Chief Administrative Officer (CAO) continue actions to implement prior recommendations.

This document begins with a list of criteria we applied to internal control weaknesses and concludes with details about specific weaknesses we identified.

CRITERIA

We used three levels of progress to rank improvement of prior findings:

- Substantial Progress
- Some Progress
- Limited Progress

We based the status of prior recommendations on the following criteria:

- Closed
- Substantial Progress
- Some Progress
- Limited Progress
- Not Started

DETAILS OF INTERNAL CONTROL WEAKNESSES

Finding No. 1: Payroll Processing

Summary Status: Material Weakness
 Prior Condition
 Some Progress (since FY 1999)

NFC processes payroll for USCP. USCP must report time and attendance to NFC and is responsible for maintaining pay and leave records and documents that support pay rates and deductions. USCP lacked policies and procedures to ensure that payroll and personnel activity for which it was responsible was processed consistently and properly supported by approved and authorized documentation.

This condition has been reported since FY 1999, and similar elements of the condition existed as of September 30, 2005 and 2004. Prior-year audits and the FY 2005 and FY2004 audits identified four conditions that resulted in this material weakness. The recommendations for each of these conditions were still open and are discussed below.

<p>1. USCP employee personnel folders did not contain documents to support various payroll actions, and documents found did not agree to current payroll actions reported. Documentation was not always present to support current employee salaries.</p> <p>We recommend that the CAO develop and implement policies and procedures to ensure that employee personnel files are current and clearly document grade, step, and benefit information for each employee, and that supporting documentation for all payroll disbursements is readily available.</p>	
<p>Status of Recommendation: Limited Progress.</p> <p>USCP has developed procedures to ensure that current salary information is appropriately reflected in the personnel records and that individual payroll data are properly controlled, supported, and maintained. Specifically needed are personnel to perform the developed procedures.</p> <p>Open: USCP needs to implement these procedures and hire and provide training to personnel in the proper maintenance of personnel records.</p>	<p>Management Response: All personnel and payroll data as described are maintained and secured <i>electronically</i> at the USDA/NFC facility and are available and accessible by authorized USCP OHR staff. USCP/OHR has adopted the use of form SF-50, Notification of Personnel Action, and began printing these hard-copy documents for inclusion in the USCP Central Personnel Files. Beginning with the January 2005 annual cost-of-living pay raise, all USCP employees' SF-50 forms have been printed, and work is completed in filing all 2005 and 2006 documents into individual personnel folders. Since 2003, OHR has a trained, dedicated, full-time employee who is responsible for personnel/payroll records maintenance.</p>
<p>2. USCP policy did not require all employees to positively attest to the accuracy of pay-period information transmitted to NFC.</p> <p>We recommend that the CAO develop and implement policies and procedures requiring all employees to positively attest to the accuracy of pay-period information transmitted to NFC.</p>	

<p>supervisors. Implementation of the procedure has, however, been inconsistent. USCP has implemented a new time collection system that will render the acknowledgement of the Certification Report obsolete; the control function has not, however, been activated. The primary policy directing this issue currently is the requirement for each employee to sign the Certification Report.</p> <p>Open: USCP needs to implement and enforce policies and procedures. If USCP intends to use the controls built into the new time collection system to correct this condition, its policies must be updated to reflect which policy is in effect and required.</p>	<p>required to attend. The policy is reinforced through recurring training of new timekeepers and administrative personnel. The responsibility for the conduct of this activity rests with individual certifying officials, however, OHR agrees that the oversight and auditing of it rests with OHR. At the current time, OHR does not have sufficient resources to conduct a program of regular and recurring spot audits throughout USCP's organizational units to ensure that supervisors and timekeepers are carrying out their responsibilities in requiring that employees sign bi-weekly certification sheets. Internal control mechanisms such as the payroll reconciliation process and overtime reporting are in place to mitigate the risk of inaccurate reporting of time and attendance.</p>
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<p>3. USCP did not enforce its policy requiring supervisors to approve the accuracy of pay-period information submitted to NFC.</p> <p>We recommend that the CAO enforce existing policies and procedures to require supervisors to approve the accuracy of pay-period information before it is transmitted to NFC.</p> <p>Status of Recommendation: Limited Progress.</p> <p>USCP has developed procedures requiring supervisors or other equivalent officials most knowledgeable of time worked by employees to approve bi-weekly Certification Reports to the extent practical. They are required to sign and date reports; however, inconsistent application has been noted. USCP has implemented a new time collection system that will render the acknowledgement of the Certification Report obsolete. This control function has not, however, been activated.</p> <p>Open: USCP needs to consistently implement policies and procedures. If USCP intends to use the controls built into the new time collection system to correct this condition, it must update current policies and notify all personnel of the change.</p>	<p>Management Response: The policy requiring supervisory certification was introduced through initial training on the new T&A system (implemented in 2004), which all timekeepers, administrative personnel, and supervisors were required to attend. The policy is reinforced through recurring training of new timekeepers and administrative personnel. The responsibility for the conduct of this activity rests with first and second-line officials; however, OHR agrees that the oversight and auditing of it rests with OHR. Currently, OHR does not have sufficient resources to conduct a program of regular and recurring spot audits throughout USCP's organizational units to ensure that supervisors are carrying out their responsibilities in certifying bi-weekly certification sheets. Internal control mechanisms such as the payroll reconciliation process and overtime reporting are in place to mitigate the risk of inaccurate reporting of time and attendance.</p>
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<p>4. USCP did not maintain adequate timekeeping records. Signed Certification Reports could not be located. Without signed Certification Reports, it is not possible to verify that information in the time collection system is authorized and accurate.</p> <p>We recommend that the CAO develop and implement policies and procedures to permit USCP to efficiently track and certify all hours incurred by all employees.</p>	<p>Status of Recommendation: Some Progress.</p>
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<p>As long as the Certification Report is intended to be the primary control for time attestation, these documents must be retained. Any changes or adjustments must be documented. The new system requires the T&A Clerk to enter an explanation into the system to document changes. Supervisory attestation did not, however, always occur.</p> <p>Open: USCP needs to ensure that all time is attested to before this deficiency can be considered closed. Additionally, changes to timekeeping records made directly to the time collection system should require re-certification of Certification Reports. Completed Certification Reports should be kept in a central location and controls put in place to ensure that all reports are maintained.</p>	<p>management will be briefed on the policy requiring supervisory certification of employee time and attendance. The policy will also be reinforced through recurring training of existing and new timekeepers and administrative personnel.</p>
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<p>5. Controls to provide evidence of approval of overtime and leave in [REDACTED] were not consistently used.</p> <p>We recommend that the CAO enforce policies and procedures regarding supervisory approval of time records in [REDACTED] and reinforce policies and procedures regarding leave approval.</p>	<p>Status of Recommendation: New.</p> <p>Management Response: Executive management will be briefed on the policy requiring supervisory certification of employee time and attendance. The policy will also be reinforced through recurring training of existing and new timekeepers and administrative personnel.</p>
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<p>6. Physical security of personnel records and personnel related information was inadequate.</p> <p>We recommend that the CAO develop policies and procedures to properly safeguard sensitive information related to personnel to prevent unauthorized access and loss and implement them.</p>	<p>Status of Recommendation: New</p> <p>Management Response: Employee personnel records and personnel-related information are physically maintained and secured within OHR. Personnel records on current employees are physically secured in a separate room within OHR; policies and procedures are in place and working regarding access to the actual room, as well as the release of information from these employee personnel records. Historical personnel-related files are kept in a separate, multi-purpose room within OHR, and these files are secured during non-business hours.</p>
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<p>7. Office of Human Resources (OHR) did not perform a detailed reconciliation of payroll data before and after transmission to NFC. Additionally, OHR did not review the Audit Report titled "Review of the Office of the Chief Financial Officer/National Finance Center General Controls" (SAS 70). This report identifies weaknesses in NFC internal controls that should be considered when controls are designed and evaluated by USCP.</p> <p>We recommend that the CAO develop policies and procedures to regularly perform a robust</p>
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<p>reconciliation of all data transmitted to and received from NFC to verify its integrity. Additionally, we recommend the CAO develop policies and procedures to regularly obtain the SAS 70 report from NFC and document an evaluation of the potential impact that NFC weaknesses can have on USCP.</p>	
Status of Recommendation: New	<p>Management Response: With regard to individually entered personnel and payroll actions, internal SOP's within OHR are in place and working that verifies the source document against what is transmitted and stored in the NFC database. With regard to T&A data, employee attestation and supervisory of certification reports would serve as a reconciliation function, which we have responded to above. In addition, upon transmission of T&A data to the NFC, reports are generated and reviewed that provide the number of T&A's received and the aggregate number of hours reported for disbursement purposes. In 2006, OHR established a pre-disbursement "Payroll Certification Report" which calculates a bi-weekly salary estimate, and report the current salary account balance as maintained in OFM's financial management system. Post-bi-weekly salary payroll reporting consists of OFM performing reconciliation consisting of SF-224 data provided to OFM by NFC, a report of "Abstract of Transactions," SF-2812, Withholdings and Contributions report, as well as reports from NFC's Administrative Billings and Collections (ABCO) system.</p> <p>With regard to knowledge and/or review of the SAS-70 or SAS-70-like reports, the OHR payroll manager reported to Cotton & Company auditors that the USCP did, indeed have a copy of the 2005 "Review of the Office of the Chief Financial Officer/National Finance Center General Controls," and in fact reported to the auditors that NFC had provided a briefing to all customers regarding its content.</p>
<p>8. OHR did not have sufficient controls in place to ensure compliance with Federal Nepotism Laws and Regulations.</p> <p>We recommend that the CAO develop policies and procedures to prevent non-compliance with Title 5, Part III of Section 3110, Employment of relatives; restrictions. Multiple levels of control may be needed to guarantee that the law will not be violated.</p>	
Status of Recommendation: New	<p>Management Response: Several policies/procedures are in existence related to employment of relatives. Every candidate for employment is required to complete a USCP background investigation book, in which specific questions are clearly stated, and candidates are required to respond to. In addition, a separate "Employment of Relatives" form is separately</p>

executed as part of the background investigation interview. Finally, a specific “Employment of Relatives” draft policy has been created, and is currently under review by USCP management officials.

Finding No. 2: Financial Management

Summary Status: Reportable Condition
 Prior Condition
 Substantial Progress (since FY 1999)

The prior-year internal control examinations reported that USCP had inadequate and incomplete accounting policies, methods, practices, and systems, which contributed to poor financial management. USCP has continued to make significant improvements since FY 1999. Although our FY 2003 examination found that this condition continued to exist as of September 30, 2003, we noted improvements. During FYs 2004 and 2005, USCP implemented many policies and procedures. The environment surrounding USCP financial management continues, however, to evolve, and controls often did not reflect changes. USCP started preparing a Statement of Budgetary Resources in FY 2004 to replace the Statement of Receipts and Disbursements previously issued.

Even as positive change occurs, new deficiencies can come to light. Once identified, USCP takes corrective action to mitigate issues. USCP continues to face challenges and difficulties with daily operations caused by growth and associated responsibilities and inefficiencies as it learns to respond. Several key positions are vacant or soon will be, because of recent resignations and retirements. The results of these situations cannot be measured today but almost certainly will force the Office of Financial Management (OFM) to continue to work in "crisis mode." OFM migrated to its new [REDACTED] accounting system at the beginning of FY 2006, which is expected to result in improved reporting capabilities in the future.

Open Deficiency

1. OFM did not fully implement policies and procedures for managing financial operations.

As of September 30, 2005 and 2004, OFM had developed and implemented policies and procedures for managing financial operations, but they were not consistently used. The most important aspect of implementing new policies is following up on how well staff is employing the new procedures. Unless new and current policies and procedures are clearly presented by management and understood and followed by all employees, USCP will continue to have deficiencies in financial operations.

Specifically, we noted the following deficiencies:

- Misclassified transactions (Budget Object Codes, Division Codes, and Funds)
- Insufficient documentation to support receipt of goods
- Insufficient implementation of policy for receiving of goods
- Vendors not promptly paid
- Missing payment documentation
- No policy or procedure requiring the monitoring of fuel purchase transactions

Recommendation: We recommend that the CAO continue to implement policies and procedures covering all matters impacting USCP's financial performance, take steps to ensure that they are implemented consistently throughout USCP, and provide training for all employees.

Status of Recommendation: Substantial Progress. USCP developed a Financial Management Improvement Plan (FMIP) in FY 2001 that included policies and procedures for operating OFM and HRM. It has implemented many policies and procedures, but follow-up must occur to ensure	Management Response: USCP, as part of the development of our new Internal Control Program, will assess existing policies and procedures and develop new ones as needed. The Office of Financial Management (OFM) will continue to work with our customers,
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<p>that they are consistently followed. Additionally, policies and procedures should be developed for all activities occurring in OFM.</p> <p>Open: USCP needs to create a system to follow up on implementation of standard operating procedures (SOPs). As USCP grows, SOPs will require change, and new SOPs will be needed. USCP should prepare and implement SOPs as soon as a weakness is identified. OFM management will need to take a more proactive approach to monitoring all implemented policies to verify that other divisions are properly executing procedures.</p>	<p>providing guidance and training as needed. Extensive training of administrative staff has occurred since the end of the audit fieldwork was completed. OFM will work to monitor administrative staff processing to provide reasonable assurance that financial management activity is performed timely and accurately.</p>
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New Deficiencies

2. OFM had inadequate quality assurance procedures for yearend closing and financial statement preparation.

OFM struggled with producing the Statement of Budgetary Resources in FYs 2004 and 2005. While most of the difficulty arose from the unsophisticated accounting system in use at the time, other issues could have been mitigated had additional controls been in place.

Specifically, we noted the following deficiencies:

- Policies and procedures for providing evidence of supervisory review of the Statement of Budgetary Resources before submission to end users were lacking.
- Controls to ensure proper closure of yearend accounts were lacking.
- USCP's SBR line item, Net Outlay, did not agree to Treasury-reported Net Disbursements on the SF-6654, Undisbursed Appropriation Account Trial Balance.
- OFM did not record payables when goods and services were received and lacked a consistent methodology to estimate a sufficient liability.

Recommendation. We recommend that the CAO implement policies and procedures covering all matters impacting USCP's financial statement and yearend closing activities and take steps to document and consistently implement new activities throughout USCP.

<p>Status of Recommendation: New</p>	<p>Management Response: USCP will modify the existing Standard Operating Procedures to ensure proper closure of yearend accounts, supervisory reviews are in writing, and year-end close processes are documented. The new core financial management system implemented in October 2006 records payables upon when goods & services are received and accepted.</p>
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3. OFM did not have policies and procedures to ensure coordination between the USCP General

Counsel and OFM.

To comply with Statement of Federal Financial Accounting Standards No. 5, Accounting for Liabilities, and No. 12, Recognition of Contingent Liabilities Arising from Litigation, management is responsible for adopting policies and procedures to identify, evaluate, and account for litigation, claims and assessments as a basis for the preparation of financial statements in conformity with generally accepted accounting principles.

During the FYs 2004 and FY 2005 audit cycles, OFM did not receive cooperation from USCP's General Counsel. The lack of cooperation resulted in the General Counsel initially denying the auditor's request for what is commonly known as the "Legal Representation Letter" and resulted in significant delays in issuing audit reports for both years.

Recommendation. We recommend that the CAO develop and implement policies and procedures to facilitate the flow of information from the General Counsel to OFM and additionally require the General Counsel to respond adequately and timely to auditor request for a letter of legal representation.

Status of Recommendation: New	Management Response: Since the completion of fieldwork, OFM has finalized a Contingent Liability policy/procedure to document the requirement for a Legal Representation Letter and the information required to record contingent liabilities on the USCP financial statements.
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Finding No. 3: Information Systems

Summary Status: Reportable Condition
 Prior Condition
 Some Progress

In FY 2004, seven matters resulted in a reportable condition. Our audit procedures for FY 2005 found that four of these seven conditions remain open and three are closed. We also identified three new conditions.

Prior Existing Conditions:

1. **USCP did not develop or approve standard operating policies and procedures for its information systems; it lacked a Business Continuity Plan, System Development Life Cycle, and other policies and procedural documents.**

We recommend that the CAO develop and implement standard operating procedures for information systems.

Status of Recommendation: Closed	Management Response:
USCP now has a documented information security plan, Continuity of Operations Plan (COOP), Systems Development Life Cycle document (SDLC), and a Configuration Management Plan.	

2. **USCP Office of Information Systems (OIS) did not have adequate separation of duties.**
A draft policy and matrix has been created covering segregation of duties within OIS. This has not, however, been implemented.

We recommend that policies and procedures for separating incompatible duties be approved by management and implemented.

Status of Recommendation: Substantial Progress	Management Response: US Capitol Police
A security officer has been hired, and policies and procedures for segregating duties have been developed, although not yet implemented.	will approve and implement the draft policy for segregation of duties.

3. **Environmental controls within the headquarters building computer room were inadequate.**
The headquarters building and the computer room are under renovation. During the renovation period, the environmental controls did not meet best practices. OIS had planned upgrades that would improve controls as part of the renovation process.

We recommend review of computer room environmental controls as part of a certification and accreditation process for the general support system. During that process, management should assess risk associated with the computer room's environmental controls and make improvements as appropriate.

Status of Recommendation: Limited Progress.	Management Response: A brand new
During the renovation period, little progress has been made in improving computer room controls. Management has added a temporary monitor that can provide alert capabilities for both water and temperature.	monitoring system called [REDACTED] is scheduled to be installed in November 2006. [REDACTED] [REDACTED]

4. **System software change control policy and procedures did not exist.**

We recommend that formal system software change policies and procedures be created. These should be properly reviewed and tested, and responsible personnel should be trained to carry out such procedures. Specifically, a change management policy should be created and implemented. The SDLC methodology should also be approved and implemented.

Status of Recommendation: Closed	Management Response:
A System Development Life Cycle policy and a Configuration Management Policy have been documented and implemented, and appear to be adequately controlling the change process.	

5. **A computer security awareness training program did not exist.**

USCP should develop and implement security awareness training policies and procedures. All employees with computer access should be required to attend security awareness training both upon hire and annually for refresher training.

Status of Recommendation: Limited Progress	Management Response: A computer based online training program has been ongoing since June 2006. As of September 27 2006, over 1000 USCP employees have taken the training and certified as passed the 'Online Computer Awareness' course. This training will be conducted annually.

6. In fiscal year 2004, we noted that access controls and system software controls needed improvement. Specifically, we noted that:

a. Access controls were not adequate to ensure that:

- Access authorizations are:
 - Documented on standard forms and maintained on file.
 - Approved by senior managers.
 - Securely transferred to security managers.
- Rules of behavior are signed by users before granting access to information systems
- Generic accounts are not used for systems access

We recommend that USCP develop policies and procedures for adding new users to the system to include a standard user access authorization form. This form should be signed by a new user's manager and retained on file. Also, new users should be required to sign a Rules of Behavior document that outlines acceptable uses of the information system before access is granted. All accounts should be assigned to an individual and not to a group of users to ensure accountability.

b. Controls were not adequate to ensure that security was notified immediately and users removed when terminated or transferred. We identified many accounts related to employees who no longer required access. The Information Security Officer performs quarterly checks for accounts and a full account review annually. Annual account review procedures appeared to identify many exceptions. This indicates that normal operating procedures for identifying accounts no longer required are not working effectively.

We recommend that management ensure access rights for all terminated employees are removed in a timely manner, and that reviews of account listings and inactive accounts are performed in a timely manner.

c. System software controls were not adequate to ensure that information systems were configured in accordance with guidance for federal information systems.

We recommend that management ensure that a standard security benchmark for all systems is developed and implemented. Organizations such as the National Institute for Standards and Technology (NIST) and Center for Internet Security (CIS) provide guidance on security benchmarking for federal government systems.

Status of Recommendation: Limited Progress	Management Response:
<p>As part of the overall security policies, general rules of behavior have been created for information systems. Employees are, however, responsible for reviewing these guidelines. Thus, this condition remains open. Also, the Information Security Officer has implemented annual account review procedures, but this condition also remains open because of the reasons noted above.</p>	<ol style="list-style-type: none">1. A new user's Supervisor requests computer and email accounts. The request is kept on file. Only then a new account is set up.2. Every time the user logs on to the system there is an acceptable use statement that a user must acknowledge before a user can use the system.3. Generic accounts are reviewed quarterly and unused accounts are deleted.4. Because of the emergency nature of the work inherent in a police organization, some generic accounts are required. For example: Watch Commander, Dispatchers (COMM), etc.5. As a check out procedure each and every employee has to get [REDACTED] signed off by OIS. This form id is kept in OHR.6. The LAN and email accounts are disabled after receipt of the [REDACTED]

7. USCP did not develop a security program plan that addresses topics prescribed by OMB Circular A-130 for general support systems and major applications.	We recommend that USCP develop a security program plan that includes all major components of OMB Circular A-130, including performing risk assessments, documenting system security plans, and completing certification and accreditation for all major applications and the general support system.
Status of Recommendation: Closed USCP documented a security program plan.	Management Response:

New Conditions

8. The Certification and Accreditation (C&A) process was not fully implemented. The [REDACTED] T&A application and the Blackberry system have undergone the agency's C&A process, although other major applications and the General support system have not yet been certified or accredited. The process that was used to certify and accredit [REDACTED] requires improvement, because the documentation for the process is not being updated in a timely manner. The System Security Plan for [REDACTED] describes a system that has not been fully accredited and appears to	
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contain outdated information.

We recommend that management certify and accredit all of its major applications and general support systems and maintain and update documentation supporting each system as necessary to reflect the current environment.

Management Response:

Unisys has been working on C and A for General Support Systems and other Admin and LEIS systems; WAN and LANS System Security Plans are Complete; Security Control Assessment is ongoing; Admin/LEIS systems are scheduled to be C and A'ed before the end of 2006. [REDACTED] and [REDACTED] financial systems are cross-serviced with the Department of the Interior (DOI). DOI regularly certifies and accredits their hosted systems. USCP would not C and A another entities systems. However, USCP has requested and received the C and A for [REDACTED] and will receive [REDACTED] C and A when completed in January 2007. Copies of NBC's SAS 70 can be found in OFM.

9. Management's oversight of the outsourced Federal Financial System was inadequate.

The financial system of record for FY 2005 and FY 2004 was the Federal Financial System (FFS). This system was hosted and operated by the Government Accountability Office (GAO). During the reporting period, USCP did not provide oversight of controls for the system and did not have procedures in place to gain assurance over system controls. Because the system has not been certified and accredited for USCP operation, the understanding and acceptance of risk associated with the system were informal. USCP no longer uses FFS.

We recommend that management perform a certification and accreditation of the new financial system and include internal control procedures to ensure that outsourced system operators provide appropriate levels of security assurance for USCP.

Management Response:

USCP concurs with the recommendation however USCP did not "outsource" its financial system utilizing the traditional cross-servicer-client relationship. USCP was a user of the GAO system, was not the software/hardware owner and had no authority to mandate changes or oversee GAO operations. A certification and accreditation of the new financial system has been completed and internal controls are in place to ensure the new outsourced system operators provide appropriate levels of security assurance for USCP.

10. USCP did not have procedures for sanitizing and disposing of media containing sensitive information.

USCP used the Senate's services and procedures for disposing of the majority of its computer hardware. Procedures did not exist, however, for sanitizing and disposing of media that may contain more sensitive data.

We recommend that management develop standard procedures for sanitizing and disposing of media that may contain sensitive data.

Management Response:

USCP purchases computer hardware from the US Senate's contract. A task on that Senate-contract facilitates USCP computer disposal. Sanitation is a part of this process.



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United States Capitol Police Board

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS**

We have audited the accompanying Statements of Budgetary Resources of the United States Capitol Police (USCP) for the fiscal years ended September 30, 2005, and September 30, 2004, and have issued our reports thereon dated July 25, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

USCP management is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance that its financial statements are free of material misstatement, we performed tests of USCP's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to USCP. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

~~This report is intended solely for the information and use of the United States Capitol Police Board, USCP management, Members of the United States Congress, and the Comptroller General of the United States and is not intended to be, and should not be, used by anyone other than these specific parties.~~

COTTON & COMPANY LLP

Alan Rosenthal, CPA
Partner

July 25, 2006
Alexandria, Virginia