

Approved for public release by the Capitol Police Board on January 20, 2026

**UNITED STATES CAPITOL POLICE  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
FISCAL YEAR 2007  
OIG-2008-03**

Cotton & Company LLP  
Auditors · Advisors  
635 Slaters Lane, 4<sup>th</sup> Floor  
Alexandria, Virginia 22314  
703.836.6701  
703.836.0941, fax  
[REDACTED]  
[www.cottoncpa.com](http://www.cottoncpa.com)

## CONTENTS

Section	Page
Independent Auditors' Report	1
Balance Sheet	3
Statement of Net Cost	4
Statement of Changes in Net Position	5
Statements of Budgetary Resources	6
Notes to the Financial Statements	7
Independent Auditors' Report on Internal Control	16
Independent Auditors' Report on Compliance with Laws and Regulations	49

## **INDEPENDENT AUDITORS' REPORT**



Cotton & Company LLP  
635 Slaters Lane  
4<sup>th</sup> Floor  
Alexandria, VA 22314

P: 703.836.6701  
F: 703.836.0941  
www.cottoncpa.com

United States Capitol Police Board

### INDEPENDENT AUDITORS' REPORT

We were engaged to audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying balance sheet of the United States Capitol Police (USCP) as of September 30, 2007, and the related statements of net cost, changes in net position, and budgetary resources, for the fiscal year then ended. These financial statements are the responsibility of the USCP's management.

We were unable to obtain sufficient, competent, evidential matter to determine if the above-referenced financial statements were fairly presented in all material respects in conformity with accounting principles generally accepted in the United States. USCP personnel did not provide complete and accurate financial statements and supporting documentation on a timely basis in order to enable us to apply all necessary auditing procedures in accordance with the specified audit completion date. Specifically, detailed property records were not adequately maintained and supporting data were not available for our audit.

Therefore, we were not able to satisfy ourselves regarding amounts at which property, plant, and equipment and related accumulated depreciation are recorded in the accompanying balance sheet as of September 30, 2007 (stated at \$139,823,330 and \$59,131,681, respectively), the amount of write-offs due to dispositions and obsolescence, a prior-period adjustment in the amount of \$11,864,345 resulting from the disposal of fixed assets, as well as depreciation expense (stated at \$22,818,565) for the year then ended. In addition, we were not able to satisfy ourselves regarding the allocation of operating costs of \$301,177,744 by budget object code, as disclosed in footnote 12.

Because of the significance of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have submitted reports dated November 15, 2007, on our examination of USCP's internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of our report on compliance is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*.

COTTON & COMPANY LLP

A handwritten signature in black ink, appearing to read "Alan Rosenthal", with a long horizontal flourish extending to the right.

Alan Rosenthal, CPA  
Partner

November 15, 2007  
Alexandria, Virginia

## **FINANCIAL STATEMENTS AND NOTES**

**UNITED STATES CAPITOL POLICE  
BALANCE SHEET  
AS OF SEPTEMBER 30, 2007**

**ASSETS**

Intragovernmental:

Fund Balance With Treasury (Note 2) \$ 76,322,759

Advances to Others (Note 3) 9,018,152

Total Intragovernmental 85,340,911

Accounts Receivable, Net (Note 4) 39,731

General Property, Plant and Equipment, Net (Note 5) 80,691,649

**TOTAL ASSETS**

\$ 166,072,291

**LIABILITIES (Note 6)**

Intragovernmental: Accounts Payable 3,096,636

Accounts Payable 12,399,359

Actuarial FECA Liabilities (Note 10) 19,172,799

Other (Note 7) 17,609,987

**TOTAL LIABILITIES**

\$ 52,278,781

**NET POSITION**

Cumulative Results of Operations 54,421,993

Unexpended Appropriations 59,371,517

**TOTAL NET POSITION**

\$ 113,793,510

**TOTAL LIABILITIES AND NET POSITION**

\$ 166,072,291

The accompanying notes are an integral part of this financial statement.

UNITED STATES CAPITOL POLICE  
STATEMENT OF NET COST  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

**PROGRAM COSTS**

Security and Protection	\$ 301,177,744
Less: Earned Revenue	<u>(421,754)</u>
Net Program Costs	300,755,990
Costs Not Assigned to Programs	<u>-</u>
<b>NET COST OF OPERATIONS</b>	<b><u>\$ 300,755,990</u></b>

The accompanying notes are an integral part of this financial statement.



**UNITED STATES CAPITOL POLICE  
STATEMENT OF CHANGES IN NET POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

**CUMULATIVE RESULTS OF OPERATIONS**

BEGINNING BALANCE, October 1	\$ 51,624,560
Adjustments: Correction of errors (Note 14)	11,864,345
BEGINNING BALANCE AS ADJUSTED, October 1	<u>63,488,905</u>
 BUDGETARY FINANCING SOURCES	
Appropriations Used	276,518,079
 OTHER FINANCING SOURCES	
Imputed Financing Sources	15,170,999
NET COST OF OPERATIONS	<u>(300,755,990)</u>
NET CHANGE	<u>(9,066,912)</u>
 TOTAL CUMULATIVE RESULTS OF OPERATION, SEPTEMBER 30	 <u><u>\$ 54,421,993</u></u>

**UNEXPENDED APPROPRIATIONS**

BEGINNING BALANCE, October 1	\$ 70,255,721
 BUDGETARY FINANCING SOURCES	
Appropriations Received	265,635,000
Other Adjustments	-
Appropriations Used	<u>(276,519,204)</u>
Total Budgetary Financing Sources	<u>(10,884,204)</u>
 TOTAL UNEXPENDED APPROPRIATIONS, September 30	 <u>59,371,517</u>
 NET POSITION	 <u><u>\$ 113,793,510</u></u>

The accompanying notes are an integral part of this financial statement.

UNITED STATES CAPITOL POLICE  
STATEMENT OF BUDGETARY RESOURCES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

**BUDGETARY RESOURCES**

Unobligated Balance, October 1	\$ 39,468,885
Receipts of Prior Year Unpaid Obligations	4,804,881
Adjustments to Beginning Balance	507,920
<b>Total Prior Resources</b>	<b>\$ 44,781,686</b>

**New Resources**

Appropriations	\$ 265,635,000
Spending Authority from Offsetting Collections	490,524
Nonexpenditure transfers, net	-
<b>Total New Resources</b>	<b>\$ 266,125,524</b>

**Permanently Not Available**

Enacted Reduction	-
-------------------	---

<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$ 310,907,210</b>
----------------------------------	-----------------------

**STATUS OF BUDGETARY RESOURCES**

Obligations Incurred, Direct	\$ -
Obligations Exempt from Appropriations	266,079,556
<b>Total Obligations Incurred</b>	<b>266,079,556</b>

Unobligated Balance Exempt from Apportionment	28,462,679
Unobligated Balance Not Available	16,364,975

<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$ 310,907,210</b>
--	-----------------------

**CHANGE IN OBLIGATED BALANCES**

Unpaid Obligations, October 1	\$ 48,795,961
Gross Obligations Incurred	266,079,556
Gross Outlays	(278,698,416)
Recoveries of Prior Year Unpaid Obligations	(4,804,881)

<b>NET OBLIGATED BALANCE SEPTEMBER 30</b>	<b>\$ 31,372,220</b>
---	----------------------

**NET OUTLAYS**

Gross Outlays	\$ 278,698,416
Offsetting Collections	(490,524)
Distributed Offsetting receipts	-

<b>NET OUTLAYS</b>	<b>\$ 278,207,892</b>
--------------------	-----------------------

The accompanying notes are an integral part of this financial statement.

**UNITED STATES CAPITOL POLICE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The accompanying financial statements present the financial position and budgetary resources of the United States Capitol Police (USCP). The mission of the USCP, an agency in the legislative branch of the federal government, is "to protect the Congress, its legislative processes, Members, employees, visitors, and facilities from crime, disruption, or terrorism." The USCP carries out its mission primarily by providing security for the Capitol and congressional office buildings, protective services for Members and dignitaries, installing and operating advanced security systems, and maintaining staff and equipment to provide emergency response within its jurisdiction.

**B. Basis of Accounting**

The financial statements were prepared from the Department's books and records in conformity with Federal Generally Accepted Accounting Principles, as prescribed for the federal government by the Federal Accounting Standards Advisory Board (FASAB). Accordingly, revenue is recognized when earned and expenses are recognized when incurred, without regard to the receipt or payment of cash. These principles differ from budgetary reporting principles, whereby funds availability is recorded based on legal considerations and constraints. As a result, certain line items on the proprietary financial statements may not equal similar line items on the budgetary financial statements.

The statements were also prepared in conformity with the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. The Balance Sheet presents the financial position of the USCP. The Statement of Net Cost presents the operating results; the Statement of Changes in Net Position displays the changes in the equity accounts. The Statement of Budgetary Resources presents the sources, status and uses of the USCP's budgetary resources and follows the rules for the Budget of the United States Government.

Throughout these financial statements, intragovernmental assets, liabilities, earned revenue and costs have been classified according to the type of entity with whom the transactions were made. Intragovernmental assets and liabilities are those from or to other federal entities. Intragovernmental earned revenue represents collections or accruals of revenue from other federal entities, and intragovernmental costs are payments or accruals to other federal entities. These financial statements should be read with the understanding that they are for a component of the U.S. Government.

**C. Budgetary Resources and Status**

The USCP is funded through congressionally approved appropriations. The USCP is responsible for administering its salaries and expenses through the execution of these appropriations. Congress enacts annual appropriations that provide the USCP with authority to obligate funds within the respective fiscal year for necessary expenses to carry out its mission and related activities. In addition, Congress enacts permanent indefinite appropriations that are available until expended.

The USCP's budgetary resources for FY 2007 consist of:

- Unobligated balances or resources brought forward from the prior year,
- Recoveries of obligations in prior years, and
- New resources in the form of appropriations and spending authority from offsetting collections.

Unobligated balances associated with resources expiring at the end of the year remain available for five years after expiration only for upward adjustments of prior year obligations, after which they are canceled and may not be used. All unused monies related to cancelled appropriations are returned to Treasury and the cancelled authority is reported as a line item on the Statement of Budgetary Resources and the Statement of Changes in Net Position.

#### **D. Fund Balance with Treasury**

Funds with the U.S. Treasury comprise the majority of intra-governmental assets on USCP's balance sheet. The U.S. Treasury processes USCP's receipts and disbursements. Funds with the U.S. Treasury primarily represent appropriated funds that are available to pay current liabilities and finance authorized purchase commitments. See Note 2 for additional information.

#### **E. Advances and Prepayments**

The USCP advances funds to federal agencies to perform long-term capital projects. The advances are liquidated and recorded as expenses or capitalized assets as work is completed.

#### **F. General Property, Plant and Equipment**

General Property, Plant and Equipment (PP&E) consists of equipment, structures, facilities, building improvements, internal use software, and construction-in-progress. The basis for recording purchased PP&E is full cost, which includes all costs incurred to bring the PP&E to a form and location suitable for its intended use. The USCP purchases assets directly from or via contracts with commercial vendors, and through interagency agreements with other federal agencies. Assets costing \$25,000 or more are capitalized and depreciated on a straight-line basis over the estimated useful life of the property as follows: computer hardware and software, 3 years; security and office equipment and cruiser/sedan vehicles, 5 years; trucks, SUVs and vans, 7 years; building improvements, other structures and facilities, 10 years.

#### **G. Liabilities**

Liabilities represent amounts that are likely to be paid by the USCP as a result of transactions or events that have already occurred.

#### **H. Accounts Payable**

Accounts payable consists of amounts owed to other federal agencies and commercial vendors for goods and services received and accepted prior to the end of the reporting period.

#### **I. Federal Employee Benefits**

The USCP recognizes its share of the cost of providing future pension benefits to eligible employees over the period of time that they render services to USCP. The pension expense recognized in the financial statements equals the current service costs for USCP's employees less the amount contributed by the employees. The Office of Personnel Management (OPM), the administrator of the plan, supplies USCP with the factors to apply in the calculation of the service cost. These factors are derived through actuarial cost methods and assumptions. The excess of the recognized pension expense over the amount contributed by USCP and employees represents the amount being financed directly through the Civil Service Retirement and Disability and administered by OPM. This amount is considered imputed financing to USCP.

The Federal Employee Compensation Act (FECA) provides income and medical cost protection to covered federal employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational

disease. Claims incurred for benefits for USCP employees under FECA are administered by the Department of Labor (DOL) and are paid, ultimately by USCP.

The USCP recognizes a current-period expense for the future cost of postretirement health benefits and life insurance for its employees while they are still working. The agency accounts for and reports this expense in its financial statements in a manner similar to that used for pensions, with the exception that employees and USCP do not make current contributions to fund these future benefits.

#### **J. Annual, Sick, and Other Leave**

Annual leave is accrued as it is earned and reduced as it is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates and balances. To the extent current or prior year appropriations are not available to fund accrued annual leave, funding will be obtained from future financing sources. Sick and other types of non-vested leave are expensed when taken. All leave is funded when expensed.

#### **K. Commitments and Contingencies**

There are no commitments or contingencies that require disclosure.

#### **L. Estimates**

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses during the reporting period. Actual results could differ from these estimates.

### **NOTE 2. FUND BALANCE WITH TREASURY**

Fund Balance with Treasury is the aggregate amounts of the USCP's accounts with the U.S. Treasury for which the entity is authorized to make expenditures and pay liabilities. The Memorial Fund includes amounts donated to the United States Capitol Police Memorial Fund and its use is restricted for its intended purpose.

<b>Fund Type</b>	<b>Balance</b>
Appropriated *	\$ 76,199,874
Special (Memorial Fund)	65,185
Suspense	30,962
Miscellaneous Receipt	26,738
<b>Total</b>	<b>\$ 76,322,759</b>
 <b>* Status of Appropriated Balance</b>	
Unobligated	
Available	\$ 37,485,814
Unavailable	7,341,840
Obligated Balance not yet Disbursed	31,372,220
<b>Total</b>	<b>\$ 76,199,874</b>

### **NOTE 3. ADVANCES TO OTHERS**

The USCP enters into agreements with other federal agencies to design, develop, and test security systems. These agencies estimate funding necessary for payments to their contractors for labor and materials for certain periods of time and request advances of funds from USCP. The advances are periodically liquidated using information from expense reports sent to USCP. Any unliquidated advance balance remaining at the end of the project is refunded to USCP by the agencies holding the contract.

#### NOTE 4. ACCOUNTS RECEIVABLE

The USCP establishes administrative and billing collections from USCP employees and others. These can arise from salary overpayments, indebtedness related to annual/sick leave and retirement and insurance plan premiums. The USCP net accounts receivable as of September 30, 2007 was:

<b>Receivables from the Public:</b>	
USCP Employees	\$ 66,274
Other	<u>1,907</u>
Total Receivables from the Public	\$ 68,181
Less: Allowance for uncollectible accounts	<u>(28,450)</u>
<b>Accounts Receivable, Net</b>	<b><u>\$ 39,731</u></b>

The allowance for uncollectible receivables due from USCP employees is calculated by the National Finance Center (NFC). The calculation is based on a risk of non-collection factor applied to an aging of the receivables.

<b>Days Outstanding</b>	<b>Receivable</b>	<b>Factor</b>	<b>Allowance</b>
0-30	\$ 14,397	0.01	\$ 144
31-90	11,841	0.10	1,184
91-180	5,192	0.25	1,298
181-360	13,840	0.50	6,920
Over 360	21,005	0.90	18,904
<b>Total</b>	<b><u>\$ 66,274</u></b>		<b><u>\$ 28,450</u></b>

#### NOTE 5. PROPERTY, PLANT AND EQUIPMENT

The composition of property, plant and equipment as of September 30, 2007, is as follows:

<b>Classification</b>	<b>Acquisition Cost</b>	<b>Accumulated Depreciation</b>	<b>Book Value</b>
Building Improvements	\$ 766,128	\$ (197,376)	\$ 568,752
Other Structures and Facilities	1,329,793	(548,890)	780,904
Equipment	113,825,672	(52,435,988)	61,389,684
Internal Use Software	9,276,447	(5,949,428)	3,327,019
Construction-in-Process	14,063,057	-	14,063,057
Software-in-Development	562,233	-	562,233
<b>Total</b>	<b><u>\$ 139,823,330</u></b>	<b><u>\$ (59,131,681)</u></b>	<b><u>\$ 80,691,649</u></b>

#### NOTE 6. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

USCP liabilities not covered by budgetary resources as of September 30, 2007 are summarized below:

<b>Non-Federal</b>	
Worker's Compensation Benefits (Actuarial FECA Liability)	\$ 19,172,799
Accrued Unfunded Leave	7,853,993
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<u><u>\$ 27,026,792</u></u>

Liabilities not covered by budgetary resources require Congressional action before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely, it is not certain such appropriations will be enacted.

#### NOTE 7. OTHER LIABILITIES

<b>Non-Federal</b>	
Accrued Funded Payroll and Leave	\$ 9,631,202
Unfunded Annual Leave	7,853,993
Funds Returned by Treasury, Canceled Payments to be Reissued	32,870
Custodial Receipts for Memorial Fund	65,185
Other	26,737
<b>Total Other Liabilities</b>	<u><u>\$ 17,609,987</u></u>

#### NOTE 8. FEDERAL EMPLOYEE BENEFITS

The USCP's employees are eligible for benefits under either the Congressional formula of Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) Basic Benefit Plan. The FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983 are automatically covered by FERS. Employees under FERS are also covered under the Federal Insurance Contributions Act (FICA), imposes a tax on both employees and employers to fund Social Security and Medicare – Federal programs that provide benefits for retirees, the disabled, and children of deceased workers. Social Security benefits include old-age, survivors, and disability insurance. Medicare provides hospital insurance benefits. Federal employees hired prior to January 1, 1984 can elect to join FERS or remain in CSRS.

For employees under FERS, USCP automatically withholds 1.3% of base pay for retirement and 7.65% of base pay for FICA. Federal agencies must fund future FERS retirement costs. As required, USCP contributes 17.9% of FERS employees pay for this purpose. This amount, along with the 1.3% withholding, is transferred to the Federal Employees Retirement Fund maintained by OPM to finance payments to retirees under the FERS Basic Benefit Plan. The FICA withholdings and USCP's matching FICA contributions are transferred to the Social Security Administration (SSA).

On April 1, 1987 the Thrift Savings Plan (TSP) was initiated, as authorized by the Federal Employees' Retirement System Act of 1986, to provide a new retirement savings and investment plan for employees covered by FERS or CSRS. For FERS employees eligible for TSP, USCP is mandated to contribute 1% of gross pay and matches participants' contributions up to an additional 4 percent. Both employee and Agency TSP contributions are transferred to the Thrift Savings Fund, maintenance of which is responsible by the Federal Retirement Thrift Investment Board.

Under CSRS, USCP withholds 7.5% percent of gross earnings and matches this withholding with equal contributions. The sum of withholding and matching contributions is transferred to CSRS. An additional 1.45% of pay is contributed toward Medicare on behalf of CSRS employees. The CSRS participants may

also contribute up to 5% of their base pay to a TSP account, but there is no Agency matching contribution.

In addition, all permanent employees are eligible to participate in the contributory Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance Program (FEGSLIP) and may continue to participate after retirement. USCP makes contributions through OPM to FEHBP and FEGSLIP for active employees to pay for their current benefits. USCP's contributions for active employees are recognized as operating expenses. The total cost of the primary benefits paid by the USCP on behalf of its employees for the period ended September 30, 2007 is as follows:

Retirement plan (CSRS/FERS) contributions	\$ 22,510,526
Health and life insurance plan (FEHBP/FEGSLIP) premiums	\$ 11,286,374
FICA contributions	\$ 11,664,173

As of September 30, 2007, the USCP owes \$1,802,728 in contributions for FEHBP, FEGSLIP, FICA, FERS, and CSRS to OPM and Treasury. This liability is accrued as part of accounts payable on the Balance Sheet.

In accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 4, *Managerial Cost Accounting Standards* and SFFAS No. 5, USCP records, as a financing source and imputed cost, an estimate of the unfunded portion of pension and other post retirement benefits to be paid by OPM in the future. Imputed costs are recalculated annually by OPM actuaries with revised "cost factors". Imputed retirement "cost factors" represent a percentage of employees' basic pay. Such factors, which reflect certain economic and demographic assumptions, are used to estimate the value of pension benefits (CSRS and FERS) expected to be paid in the future. The OPM calculates the present value of these amounts to determine the contribution necessary to today to sufficiently fund the future pension benefits. The OPM also provides "cost factors" for the other post retirement benefits it administers. For FEHBP, the factor is a per person amount for enrolled employees. For FEGSLIP, the factor is a percentage of basic pay for enrolled employees. Using the cost factors supplied by OPM, USCP recognized to following imputed costs for the fiscal year ended September 30, 2007:

Value of estimated future CSRS and FERS benefits to be paid	\$ 5,405,499
Value of estimated future FEHBP and FEGSLIP benefits to be paid	9,765,500
Total Costs Imputed to USCP	<u>\$ 15,170,999</u>

#### NOTE 9. INCIDENTAL CUSTODIAL ACTIVITY

The Capitol Police Board is responsible for administering and managing receipts and disbursements for the USCP Memorial Fund established under Public Law 105-223. These activities are incidental to the primary mission of the USCP. A summary of the custodial activities for the period ended September 30, 2007, is provided below:

Beginning Balance (as of October 1, 2006)	\$ 33,435
Donations Collected and Deposited to the U.S. Treasury	31,750
Disbursements to Recipients	<u>-</u>
Ending Balance (as of September 30, 2007)	<u>\$ 65,185</u>



#### NOTE 10. WORKERS' COMPENSATION

The actuarial FECA liability represents an estimate of future workers compensation (FWC) benefits to be paid for death, disability, medical, and miscellaneous cases. The liability is computed using a formula provided by DOL annually as of September 30<sup>th</sup> based on a method that utilizes historical benefits payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The projected annual benefits are discounted to present value using OMB's economic assumptions for ten-year Treasury notes and bonds. To provide more specifically for effects of inflations on liability for FWC benefits, wage inflation factors (Consumer Price Index-Medical) are applied to the calculation of projected future benefits. These factors are also used to adjust historical payment so benefits are stated in current-year constant dollars. The USCP recorded an estimated liability for claims incurred but not reported as of September 30, 2007, which is expected to be paid in future periods. This actuarial liability of \$19,172,799 is reported on USCP's Balance Sheet.

The USCP also recorded a liability for amounts paid to claimants by the DOL but not yet reimbursed by USCP in the amount of \$1,801,924 and is shown in USCP's Balance Sheet as an intragovernmental liability.

#### NOTE 11. UNDELIVERED ORDERS

Budgetary resources obligated for undelivered orders as of September 30, 2007 are \$15,263,175. Undelivered orders represent funds obligated for goods and services ordered but not yet received.

#### NOTE 12. OPERATING EXPENSES BY TYPE

Total USCP operating costs by type incurred during FY 2007 are as follows:

Personnel Compensation	\$ 168,387,904
Personnel Benefits	50,070,260
Contractor Support Services	25,459,861
Depreciation and Amortization	22,818,565
Imputed Federal Employee Retirement Costs (Note 8)	15,170,999
Supplies, Materials, and Uniforms	5,694,651
Travel	5,083,275
Non-Capital Furniture and Equipment	3,356,767
Government Support Services	2,001,666
Rent, Communications, and Utilities	1,761,229
Training	542,888
Miscellaneous	380,024
Death Gratuities	285,988
Advertising, Printing and Binding	163,666
<b>Total Program Costs</b>	<b>\$ 301,177,744</b>

## NOTE 13. RECONCILIATION OF NET COST TO BUDGET

### RESOURCES USED TO FINANCE ACTIVITIES

#### Budgetary Resources Obligated

Obligations Incurred	\$ 266,079,556
Less: Spending Authority from Offsetting Collections and Recoveries	(4,804,881)
Obligations Net of Offsetting Collections and Recoveries	261,274,675
Less: Offsetting Receipts	(421,753)
Net Obligations After Offsetting Receipts	\$ 260,852,922

#### Other Resources

Imputed Financing Costs Absorbed by Others	\$ 15,170,999
--	---------------

<b>Total Resources Used to Finance Activities</b>	<b>\$ 276,023,921</b>
---	-----------------------

### RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS

Offsetting Receipts	\$ 421,753
Changes in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not yet Provided	(15,312,174)
Resources that Finance the Net Acquisition of Fixed Assets	2,096,073
Resources that Fund Expenses Recognized in Prior Periods	2,934,191

<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	<b>\$ (9,860,157)</b>
---	-----------------------

<b>Resources Used to Finance the Net Cost of Operations</b>	<b>\$ 266,163,764</b>
---	-----------------------

### COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD

Change in Unfunded Leave and Contingent Liabilities	\$ (15,082)
Depreciation and Amortization	22,818,565
Change in Allowance for Doubtful Accounts	(7,071)
Change in Accounts Receivable	240
Other	(68,771)
Prior Period Adjustments	11,864,345
<b>Total Components of Net Cost of Operations that will Not Require or Generate Resources</b>	<b>\$ 34,592,226</b>

<b>NET COST OF OPERATIONS</b>	<b>\$ 300,755,990</b>
-------------------------------	-----------------------

#### NOTE 14. PRIOR PERIOD ADJUSTMENTS

Adjustments, representing an \$11,864,345 increase in net position, were recorded to correct errors in prior years' financial statements. A number of adjustments related to capitalized property reported on the Balance Sheet as of September 30, 2006 that were determined to have been salvaged, traded-in, transferred-out, abandoned, removed from service or otherwise disposed on or before September 30, 2006. Additional adjustments were made to capitalize expenditures that had been expensed in prior years based on recently completed review and analysis. The following categorizes USCP's FY 2007 prior period adjustments:

Personal Property Cost, Net	\$ 36,547,272
Personal Property Accumulated Depreciation, Net	(24,681,171)
Correction of Prepaid Expenses and Accrued Payroll	(1,756)
Total	<u>\$ 11,864,345</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL**



Cotton & Company LLP  
635 Slaters Lane  
4<sup>th</sup> Floor  
Alexandria, VA 22314

P: 703.836.6701  
F: 703.836.0941  
www.cottoncpa.com

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, 2007, 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 the 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 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 may 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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings (Finding No. 3) to be a significant deficiency in internal control over financial reporting.

During Fiscal Year (FY) 2007, two significant deficiencies were identified, which are considered material weaknesses. USCP lacked policies and procedures to ensure that payroll activity was processed consistently and adequately supported. In addition, USCP had incomplete financial management policies, methods, and procedures that did not ensure complete, accurate, and timely reporting of financial information.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We provide details on these material weaknesses (Findings No. 1 and 2) in an attachment to this report.

In our opinion, because of the effects of the material weaknesses described in the fifth paragraph on achieving objectives of the control criteria, USCP had not maintained effective internal control over financial reporting as of September 30, 2007, based on *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States.

~~This report is intended solely for the information for and use of 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 specified parties.~~

COTTON & COMPANY LLP



Alan Rosenthal, CPA  
Partner

November 15, 2007  
Alexandria, Virginia

**REPORT ON INTERNAL CONTROL WEAKNESSES**  
**FISCAL YEAR 2007 EXAMINATION OF EFFECTIVENESS OF INTERNAL CONTROL**  
**UNITED STATES CAPITOL POLICE**

In performing the Fiscal Year (FY) 2007 examination of the effectiveness of internal control of the United States Capitol Police (USCP) three control deficiencies were identified. Two of these are considered to be material weaknesses. These findings are reported here.

These three findings were also reported in the FY 2006 examination report. USCP has made some progress toward implementing recommendations. While there was substantial progress noted for some of the payroll conditions and three conditions that previously existed were closed, there are five new conditions identified which results in our conclusion that a material weakness associated with payroll processing still exists. However, only limited progress was made toward addressing the conditions that resulted in a material weakness associated with Financial Management. In fact, a number of additional conditions were noted during FY 2007. Therefore, we recommend that the Chief Administrative Officer (CAO) continue actions to implement prior recommendations, as well as any new recommendations described herein.

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 Finding  
                             Substantial Progress

The National Finance Center (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 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 finding has been reported since FY 1999, and similar elements of the finding existed as of September 30, 2007. Prior-year audits identified eight conditions that are addressed herein. While three of these prior conditions were closed during the current fiscal year and substantial progress was noted on others, five new conditions were also noted, resulting in this material weakness. The recommendations for many of the open conditions are discussed below.

**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.**

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.

**Status of Recommendation:**  
**Open – Substantial Progress.**

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. Specific personnel are in place to perform the developed procedures. The auditor observed significant improvement.

USCP needs to implement an additional level of quality assurance to ensure proper maintenance of all personnel records.

**Management Response:**  
***USCP management concurs.***

*USCP concurs with the determination that substantial progress was made during the last 4 months, which includes annual audits of employee records, SF-50 payroll personnel documentation, and increased supervisory oversight over filing. In addition, USCP has purchased an automated records filing system which will increase OHR's capability to monitor and control the access of sensitive personnel information. The system is scheduled for implementation in early January 2008.*



<p><b>2. USCP policy requiring all employees to positively attest to the accuracy of pay-period information transmitted to NFC is not consistently implemented.</b></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><b>Status of Recommendation:</b>  <b>Open – Some Progress.</b></p> <p>USCP has procedures requiring employees to acknowledge their review of the bi-weekly Certification Report to the extent practical. Employees are required to sign and date reports and to promptly disclose discrepancies to supervisors. While exceptions to the implementation of the procedure were found, progress was noted, except for the Command Center. Control deficiencies noted at the Command Center for FY 2006 have not shown any improvement. Additional controls to assist in monitoring the implementation of this USCP policy were observed in operation. The results of USCP's monitoring and auditor testing identified the need for additional communication of USCP directives.</p> <p>USCP needs to continue monitoring USCP adherence to the policies and procedures related to time and attendance.</p>	<p><b>Management Response:</b>  <b>USCP management concurs.</b></p> <p><i>USCP will be updating its procedures to automate the review of employee timesheets during each pay period. Other than a current USCP directive, there is no requirement that an employee signs and dates the biweekly certification report. Therefore, USCP plans to revise its current directive to continue to permit employees to access their timesheet and bring discrepancies to supervisor's attention.</i></p> <p><i>In the meantime, attention to improve the deficiencies of the Command Center will be addressed.</i></p>

**3. USCP did not enforce its policy requiring supervisors to approve the accuracy of pay-period information submitted to NFC.**

We recommend that the CAO enforce existing policies and procedures to require supervisors to approve the accuracy of pay-period information transmitted to NFC.

**Status of Recommendation:**  
**Open – Substantial Progress.**

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. Significant improvement was noted, except for the Command Center, which has not shown any improvements. USCP monitoring identified inconsistent application of policies.

USCP needs to consistently implement policies and procedures. USCP must continue the monitoring activities that began during FY 2007 until 100% compliance is achieved.

**Management Response:**  
**USCP management concurs.**

*As a result of planned changes to this process, which will be implemented by February 2008, increased attention and oversight will be conducted, especially within the supervisory chain of the USCP Command Center. In addition, USCP OHR will provide reporting oversight at USCP's Executive Management Team meetings using [REDACTED] reports for compliance.*

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. Additionally, [REDACTED] and [REDACTED] are not consistently used.

We recommend that the CAO continue monitoring implementation of policies and procedures to permit USCP to efficiently and effectively track and certify all hours incurred by all employees.

**Status of Recommendation:**  
**Open – Some Progress.**

The Certification Report is intended to be the primary control for time attestation; therefore, these documents must be retained. USCP monitoring identified exceptions and the Auditor confirmed that 100% compliance with this USCP directive has not been achieved. Additionally, other records such as leave slips were frequently found missing from the timekeeping records.

USCP needs to ensure that all time is attested to before this deficiency can be considered closed. Certification Reports should be kept in a central location and controls put in place to ensure that all reports and supporting documentation are accounted for and maintained.

**Management Response:**  
**USCP management concurs.**

*We are currently revising this policy and plan to submit it into the Directives process by February 2008. Until such time as a time and attendance Directive is published, USCP OHR will provide written guidance to timekeepers of the requirement to maintain records in accordance with the Department's records retention policy. In addition, USCP OHR will continue its audit work throughout the year. This audit work consists of OHR personnel sampling and reviewing records from each Bureau and office to ensure that established processes are being followed; and provide recommendations for changes or corrections.*

<p><b>5. OHR did not have controls in place to ensure compliance with the objectives of the USCP Student Loan Repayment Program (SLRP).</b></p> <p>We recommend that the CAO develop detailed procedures to guide employees and supervisors responsible for the implementation of the program. Additionally, performance metrics must be defined in order to measure the success of the program. The USCP Office of Inspector General is issuing a separate report on this subject.</p>	
<p><b>Status of Recommendation:</b> <b>Open – Substantial Progress.</b></p> <p>USCP did not disburse any funds for the SLRP because the program has been suspended. However, it was noted that controls with respect to loan verification (potential beneficiaries) for new reimbursement applications have not been implemented to ensure that applications are only for eligible student loans. USCP has taken several actions to address compliance and to administer this program in accordance with its intent as specified in guidance provided by Congress. Specifically, collection efforts have begun to recover funds due to USCP. However, it is not possible to fully test these actions since the program has been suspended.</p>	<p><b>Management Response:</b> <i>USCP management concurs.</i></p> <p><i>USCP has made substantial progress regarding the revamping of the SLRP. Specifically, the following actions have occurred:</i></p> <ul style="list-style-type: none"> <li><i>a. Suspension of the program with no payments made for 2007/2008</i></li> <li><i>b. Action Plan developed addressing all audit findings</i></li> <li><i>c. Documents/SOPs developed and currently in use to address separating employees, administrative billings and collections and employee indebtedness notification.</i></li> <li><i>d. Checklists in place for future loan applications.</i></li> <li><i>e. Tracking of collections activity for administrative billings and collections for separated employees.</i></li> </ul>

<p><b>6. Controls to provide evidence of approval of overtime and leave in [REDACTED] or the Certification Report were not consistently used.</b></p> <p>We recommend that the CAO enforce policies and procedures regarding supervisory approval of time records and reinforce policies and procedures regarding leave approval.</p>	
<p><b>Status of Recommendation:</b> <b>Closed.</b></p> <p>The requirement for overtime and leave approval in Workbrain was not made into a formal USCP Directive. The only approval required is on the Certification Report, supported by the [REDACTED] and the [REDACTED]</p>	<p><b>Management Response:</b> <i>USCP management concurs with this closure.</i></p>

<p><b>7. Office of Human Resources (OHR) did not perform a detailed reconciliation of payroll data before and after transmission to NFC.</b></p> <p>We recommend that the CAO develop policies and procedures to regularly perform a robust reconciliation of all data transmitted to and received from NFC to verify its integrity.</p>	
<p><b>Status of Recommendation:</b> Closed.</p>	<p><b>Management Response:</b> <i>USCP management concurs with this closure.</i></p>

<p><b>8. OHR did not have sufficient controls in place to ensure compliance with Federal Nepotism Laws and Regulations.</b></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>	
<p><b>Status of Recommendation:</b> Closed.</p>	<p><b>Management Response:</b> <i>USCP management concurs with this closure.</i></p>

**New Conditions from FY 2007 Audit Procedures:**

<p><b>9. Enforcement of policies and procedures regarding physical security of personnel records and personnel related information was inadequate.</b></p> <p>We recommend that the CAO monitor compliance with policies and procedures to properly safeguard sensitive information related to personnel to prevent unauthorized access and loss and implement them. Employees with access to sensitive data should attend privacy training and supervisors should monitor those employees' work space to ensure compliance.</p>	
<p><b>Status of Recommendation:</b> Open.</p> <p>New condition.</p>	<p><b>Management Response:</b> <i>USCP management concurs.</i></p> <p><i>USCP has a designated Chief Privacy Officer who is charged with formulating and implementing guidance for safeguarding personal identifiable information. USCP OHR personnel will immediately implement a clean desk policy which will safeguard all working documents – both electronic and hardcopy from potential access to non-OHR and USCP personnel. In addition, effective immediately, USCP OHR will not co-locate contract staff in the immediate work area of OHR personnel.</i></p>

**10. OHR did not have controls in place to ensure that documentation with regard to separated employees is maintained.**

We recommend that the CAO develop detailed procedures to guide employees and supervisors responsible for the maintenance of separated employee documentation. Testing found one form [REDACTED] was missing from twelve employee files tested. A thirteenth file could not be located.

**Status of Recommendation:  
Open.**

New condition.

**Management Response:  
USCP management concurs.**

*USCP OHR will revise the Employee Separation SOP to include a final review of all documents prior to retiring the folder. In addition, USCP has purchased an automated records filing system which will monitor and control the access of sensitive personnel information and the archiving of records for historical purposes. The system is scheduled for implementation in early January 2008.*

**11. OHR does not have procedures to verify employee hours worked when the employee fails to clock in or clock out.**

We recommend that the CAO develop detailed procedures to guide timekeepers and supervisors responsible with procedures to document and/or obtain collaborating evidence to support employee assertions.

**Status of Recommendation:  
Open.**

New condition.

**Management Response:  
USCP management concurs.**

*USCP OHR will provide operating guidance to supervisors and timekeepers regarding the verification of missing clock times. In addition, [REDACTED] reports can be run by each organization to determine employee's missing clock time patterns. OHR's employee relations staff is available to work with managers to address employees' repeated failures to clock in or out of work.*

<p><b>12. OHR does not have controls in place to ensure that civilians assigned to day shift do not receive night differential pay for which they are not entitled.</b></p> <p>We recommend that the CAO develop procedures to guide supervisors responsible for reviewing and approving certification reports in identifying under what circumstances civilian personnel would be entitled to night differential pay.</p>	
<p><b>Status of Recommendation: Open.</b></p> <p>New condition.</p>	<p><b>Management Response:</b>  <i>USCP management concurs.</i></p> <p><i>USCP OHR will provide operating guidance to Supervisors and timekeepers regarding appropriate situations in which the authorization of night differential is warranted and how the approval of night differential is authorized in [REDACTED]</i></p>

**13. OHR did not sufficiently monitor controls established to ensure that allocation of pay period 20 was properly communicated to NFC during the transmission of payroll data.**

We recommend that the CAO develop additional procedures to ensure that when payroll expenses for an individual pay period fall into two fiscal years that USCP send NFC the proper timesheet codes needed to apply the appropriate allocation between fiscal years.

**Status of Recommendation:**  
**Open.**

New condition.

**Management Response:**  
***USCP management does not concur.***

*USCP OHR believes that it has sufficient controls in place to document the processing of the end of fiscal year payroll. Before submitting the payroll information to NFC, OHR staff identified an inconsistency in the guidance provided by NFC and appropriations law. We notified NFC of this inconsistency and made arrangements to submit our payroll in a manner that would allow us to charge two separate fiscal year accounts for the appropriate salaries associated with each fiscal year. We also notified the appropriate oversight Committees of this inconsistency and our solution to avoid any appropriation problems.*

*However, despite these efforts, the payroll was still processed incorrectly. Through the exercise of our own internal controls and attention to detail we effectively identified the payroll errors. USCP OHR staff conducted quality assurance testing on the 2007 transmission to determine that the processing of 2006 and 2007 records were not transmitted correctly as a result of a coding error. We identified the error in a timely manner and reported it to the appropriate oversight Committees.*

*The coding error was reviewed, fixed and retransmitted in which all 469 records were transmitted and applied correctly to the FY2007 accounting period.*



## **Finding No. 2: Financial Management**

**Summary Status:**   Material Weakness  
                          Prior Finding  
                          Limited Progress

The prior-year internal control examinations disclosed that USCP had inadequate and incomplete accounting policies, methods, practices, and systems, which contributed to poor financial management. While USCP has made improvements since FY 1999, the FY 2007 examination found that this finding continued to exist as of September 30, 2007 and additional factors limited the improvement of this finding. During FYs 2004, 2005, and 2006, USCP implemented many recommended policies and procedures; however, severe loss of human capital resources had a significant impact on USCP's financial reporting capability for FY 2006. Additional human capital loss during FY 2007 exacerbated the existing finding. The environment surrounding USCP financial management continues to evolve as evidenced this year by accepting a requirement to prepare a complete set of financial statements according to generally accepted accounting principals (GAAP). These statements were to be prepared within sufficient time to allow an audit to be conducted and a report prepared and issued by December 15, 2007. The combination of existing and new staff shortages, additional financial statements, and the accelerated deadline, coupled with the identified control weaknesses, taxed the USCP Office of Financial Management (OFM) beyond their capacity. At the time of this report USCP is taking positive steps to react to these conditions, however, they continue to face challenges and difficulties with daily operations caused by staff shortages. Several key positions are vacant. The OFM will have difficulties responding to recommendations until new staff has been fully hired and adequately trained.

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

As of September 30, 2007, OFM had developed and implemented policies and procedures for managing financial operations, but they were not consistently applied because of the lack of manpower. The most important aspect of implementing new policies is to follow up on how well the staff is employing the new procedures. Unless new and existing policies and procedures are clearly presented by management and understood and followed by all employees with management's enforcement, USCP will continue to have deficiencies in financial operations. It should be noted that a new accounting system was implemented during FY 2006 resulting in some of the identified deficiencies that arose due to the conversion and, therefore, were unique factors that may not be repeated.

Specifically, we noted the following deficiencies:

- Erroneously posted transactions requiring one or more attempts to correct.
- Vendors not promptly paid, although not required by law, but in some instances required by contractual agreements. The average late payment was determined to be 68 days tardy. There is no system currently in place to monitor the status of invoices and their timely payment.
- One duplicate payment was discovered.
- No procedures to implement new policies requiring the monitoring of fuel purchase transactions.
- Purchase card and Travel card transactions recorded to an incorrect Intra-Governmental Payment and Collection (IPAC) number.
- Evidence of a supervisory review of Statement of Differences (SOD) reconciliations was not present.
- Controls over the preparation and oversight of SF-224, Statement of Transactions are lacking. An automated and consistent approach is needed to prepare the SF-224, as well as back-up procedures.
- Controls over the cash receipt process do not function as intended. Eleven out of 18 checks received between February and June 30 were not deposited in a timely manner. This condition was noted again in September when checks received early in September were not deposited until late in the month causing a difference in the cash reconciliation.
- OFM is unaware of collections due from USCP officers determined due by Property Asset Management Division (PAMD) for lost and/or damaged property.
- Policies to monitor vendor changes are not adhered to by the Systems Accountant.
- OFM does not have controls in place to ensure that all Certificates of Origin or Title to USCP vehicles are in their custody.
- OFM policy does not require evidence of a timely review of OFM's payroll reconciliation.

- OFM payment procedures allow for an individual receiving report to be set up in advance of the actual receipt of services. Payments can be made prior to the receipt of services.
- The Security Enhancement Fund (SEF) was used to pay for contracts that were not related to the Capitol Security as required. Documentation to justify the decision was not provided.
- OFM could not provide evidence that the "Reconciliation Matrix," a corrective action identified as complete, was in fact complete and in use as reported on the corrective action status report.
- OFM de-obligated the remaining amount of an award when it was determined that there were not sufficient funds remaining and created a MP (miscellaneous payment) instead of adding funds to the existing award. Adequate contract management by the contracting officer is lacking to ensure that sufficient funds are available to meet obligations.
- OFM adjusted the ending balance of account 1410 subsequent to completion of the FY 2006 audit, resulting in the FY 2007 opening balance not agreeing to the adjusted FY 2006 audit balance.

We recommend that the CAO continue to monitor implementation of policies and procedures covering all matters impacting USCP's financial performance.

**Status of Recommendation:**  
**Open – Limited Progress.**

Severe staffing shortages created a condition in which in some instances there were not any personnel to perform the procedures for which policies had been written. Resignations by three key OFM personnel near or after the end of the fiscal year resulted in their responsibilities being assigned to an Accounting Officer with less than six months tenure at USCP. The limited OFM staff resources were not able to effectively monitor financial operations.

USCP needs to acquire sufficient resources that have experience commensurate with the OFM work load. Those resources must be monitored for efficient and effective output.

**Management Response:**  
**USCP management concurs.**

*Due to staffing restrictions, we have been unable to fully implement corrective action plans developed to address findings and weaknesses identified by auditors and internal risk assessments. A significant amount of Accounting Division attention was spent on accounting for USCP capital assets so it conforms with Federal GAAP.*

*Nonetheless, the Department intends to resume its development of a comprehensive set of financial management policies and procedures. This will include revising several existing policies and procedures and implementing new ones that had been drafted but not yet finalized.*

*USCP OFM procured the services of a contractor to perform an internal control assessment of the Department's financial management functions and to develop and implement a cost-effective internal control program. The contractor prepared end-to-end documentation of applicable functional areas and is currently conducting direct testing of key controls to determine operating effectiveness. The internal control program will follow the general processes contained in the "Implementation Guide for OMB Circular A-123, Management's Responsibility for Internal Control Appendix A, Internal Control over Financial Reporting" released by the Chief Financial Officers Council (July 2005).*

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

OFM continues to struggle with producing the fiscal yearend financial statements. Difficulties continue to exist because of inexperienced staff. OFM was directed to prepare its first complete set of financial statements, including a balance sheet, statement of net cost, statement of changes in net position and the statement of budgetary resources in FY 2007.

Specifically, we noted the following deficiencies:

- Financial Statements were not complete with respect to all footnotes. Information was missing, incomplete, or incorrect.
- The Statements could not be produced timely.
- Controls to ensure proper closure of yearend accounts for the new accounting system were lacking. Obligated Balance brought forward had a variance of \$69,311. The Unobligated Balance brought forward had a variance of \$538,130.
- USCP's Statement of Budgetary Resources (SBR) line item, Net Outlay, did not agree to Treasury-reported GWA, Government-Wide Account Statement.
- OFM does not have monitoring controls in place to detect significant fluctuations in general ledger accounts. As a result, an automatic upward adjustment of \$9,023,199 was not identified by OFM personnel.
- OFM did not properly adjust the Advances to Others account for the June 30 Balance Sheet. The account was overstated by \$40,477.
- OFM was not able to provide a copy of the Federal Agencies' Centralized Trial-Balance System II (FACTS II) report.

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><b>Status of Recommendation:</b> <b>Open – Limited Progress.</b></p> <p>OFM has policies and procedures in place, however, the manpower shortage prevented effective implementation and monitoring of procedures.</p>	<p><b>Management Response:</b> <b>USCP management concurs.</b></p> <p><i>For the first time, USCP prepared the full-set of required statements. In response to advice from GAO, OFM retained the services of a contractor to develop a financial statement preparation guide that will help ensure the four financial statements and footnotes required by OMB Circular A-136, Financial Reporting Requirements are completed in a reliable and timely manner.</i></p> <p><i>We concur that there were some quality assurance issues with the FY06 year-end closing procedures that resulted in the incorrect obligated and unobligated balances being brought forward to FY07. The FY06 year-end closing was the first subsequent to the October 1, 2005 deployment of [REDACTED]</i></p>
--	--

**3. USCP did not have policies and procedures to ensure coordination between the Office of General Counsel (OGC) 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. Coordination between OGC and OFM will allow OFM to consider the need for appropriate financial statement disclosure.

We recommend that the CAO develop and implement policies and procedures to facilitate the flow of information from the General Counsel to OFM.

<p><b>Status of Recommendation:</b> <b>Open – Limited Progress.</b></p> <p>There is no evidence of communication between OFM and OGC. Communication is required between OGC and OFM for litigation, claims, and assessments in order to ensure timely and accurate financial reporting.</p>	<p><b>Management Response:</b> <b>USCP management concurs.</b></p> <p><i>The USCP OFM and the OGC communicate on a weekly, if not a daily basis, on many financial matters, including litigation claims and assessments which may impact the financial statements. OGC and OFM will work together to develop a formal SOP to more effectively project the resource implications of legal actions and settlements.</i></p>
---	---

**4. USCP information provided could not be reconciled to property information from the accounting system.**

USCP's efforts to comply with the requirement to properly account for property and equipment on the balance sheet required all major stakeholders (OFM, SSB, and PAMD) to reconcile and identify all capital property in the custody of USCP. Reconciliation consisted of a three-way match between OFM accounting records, property records in [REDACTED] and property records maintained by SSB. OFM prepared spreadsheets to facilitate the reconciliation. These spreadsheets were not provided to the auditor until late October, since OFM was using them to assist with the input of updated information into [REDACTED] which fed into the financial statements provided November 1. The auditor was not able to reconcile the spreadsheets to [REDACTED] trial balance property accounts. From the spreadsheet samples selected by the auditor, the auditor was able to agree the acquisition cost to supporting documentation with minor exceptions due to shipping fees and sales tax. Physical inspection of sample stand-alone property revealed one instance in which an item could not be found. Another instance revealed that components of the property had been removed and property records were not adjusted accordingly. Other concerns noted in Property Management include: a significant amount of assets were removed from service but still in USCP custody; items were disposed of; or significant modifications were made that either changed the nature of the asset or impacted the life expectancy, and were not tested.

We recommend that the CAO continue efforts to integrate the data between the accounting system and property management system. Additionally, policies and procedures for regular and systematic communication and coordination between PAMD and OFM must be improved to facilitate asset recognition, current status of assets and proper disposal of assets. Lastly, all property custodians must have real time access to the property management system to ensure that all data is accurate regarding the disposition and location of all USCP property.

**Status of Recommendation:  
Open – Some Progress.**

**Management Response:**  
*USCP management concurs.*

*We believe significant progress had been made towards achieving full accountability over capital assets. We have completed the following actions:*

- Completed the first USCP full inventory.*
- Established a Property Working Group to coordinate efforts between OFL and OFM.*
- Developed comprehensive spreadsheets of all capitalized assets with supporting materials.*
- Updated information in [REDACTED] for all capitalized assets and performed depreciation calculations.*

*In FY 2008 we will continue to improve the reconciliation of information between [REDACTED] and [REDACTED]. We will ensure that newly acquired inventory and assets are appropriately recorded and reconciled. We will also implement a consistent disposal recording process.*

**New Condition from FY 2007 Audit Procedures:**

**5. USCP did not have policies and procedures to ensure coordination among divisions within OFM.**

Specifically, we noted the following deficiencies:

- The Budget Division did not record Budgetary authority for collections posted by OFM during FY 2007. The authority was subsequently entered during FY 2008.
- The Budget Division prepared 87 reprogrammings during the FY 2007; however, two were actually executed during FY 2008 to effect FY 2007 funds. These two reprogrammings were needed to fund FY 2007 expenses for which insufficient funds were previously allocated.
- The Budget Division prepared transfers that required Committee (Subcommittee on Legislative Branch), approval. There was no evidence of when the approval occurred since the signed letters were not dated.
- The Budget Division does not link its budget formulation goals and objectives (strategic plan) to its net cost (outcomes and outputs). This link is required so that the statement of net cost can be prepared in accordance with OMB A-136 form and content requirements.
- The Budget Division incorrectly posted the FY 2008 appropriation funds into [REDACTED] as FY 2007 funds. This error should have been detected by the approving official that finalized this entry into [REDACTED]. However, this error was detected by the cash reconciliation and reported to the Budget Division for correction.

We recommend that the CAO develop and implement policies and procedures to facilitate communication among the various divisions within OFM.

**Status of Recommendation:**  
**Open.**

New condition.

**Management Response:**  
**USCP management concurs.**

*In order to avoid similar issues in the future, the Budget Division will meet with the Accounting Division at the end of each fiscal quarter (and on an ad hoc basis as needed) to review tasks that require the coordination of both Accounting and Budget Divisions.*

*To ensure that similar issues are avoided in the future, we will institute a process that requires the approving official to send a reminding email to entering officials regarding the proper use of accounting periods (and by documenting the accounting period usage, provide a self-reminder).*

*When the USCP prepares reprogramming and transfer requests for Committee approval in the future, we will include a signature and date line to provide a more accurate record of the approval.*



### Finding No. 3: Information Systems

**Summary Status:** Significant Deficiency  
Prior Finding  
Some progress

In FY 2006 eight conditions existed that were disclosed in the internal control report. Based on our examination procedures for FY 2007, we found that some progress was made on all eight conditions, however none were fully closed.

As a result of the current audit-cycle timing, field work for the FY 2007 audit was completed four months after the initial draft report for the FY 2006 audit was issued (June 2007). We recognize the short lapse of time between fiscal year audits, and understand that corrective actions for a number of the prior year conditions from FY 2006 have not been fully implemented and tested due to the abbreviated audit cycle. Therefore, many of the corrective actions for these conditions will not be tested until the FY 2008 audit cycle. The corrective action plans for each of the eight prior-year conditions were updated by management and provided to the audit team in October 2007. The status for each prior year recommendation reflects the October 2007 updates.

During the current FY 2007 audit cycle six new conditions were identified. The cumulative risk associated with the eight prior-year conditions and the six new conditions is considered to be a significant deficiency.

#### Status of Existing Conditions from FY 2006 Internal Controls Report:

**1. USCP does not have policies and procedures for identifying and protecting privacy sensitive information.**

A Chief Privacy Officer (CPO) has not been appointed to ensure that all personally identifiable information (PII) is identified and appropriately secured. USCP management has not conducted a privacy impact assessment or documented their procedures for protecting PII stored in major information systems.

We recommend that USCP officially appoint a CPO and develop policies and procedures to ensure that all PII is identified and safeguarded.

**Status of Recommendation:  
Open – Some Progress.**

The CAO issued a memorandum assigning CPO duties to the CIO. The assignment of a CPO has partially addressed the prior year condition, however limited progress was noted on the development of policies and procedures to ensure that all PII is identified and safeguarded.

**Management Response:  
*USCP management concurs.***

*The CPO has been in contact with other Executive Branch Agencies and DoD Privacy Officers (e.g. Federal Trade Commission, FBI and Navy) to transfer their successful implementation strategies to USCP. A draft survey to identify PII data in major applications has been created. This survey will be used to identify PII. Privacy policy and procedures are scheduled to be developed by March 2008.*

**2. USCP has not implemented a comprehensive security baseline configuration for its operating systems that protects against known security weaknesses.**

Controls are not adequate to ensure that commonly known risks are mitigated through a secure configuration of systems. Specifically, we found that the configuration checklist used by the organization contains limited specific configuration settings for the organization's environment. This checklist is not comprehensive enough to ensure that all commonly known risks are identified and addressed.

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 the Center for Internet Security provide guidance on security benchmarks for Federal government systems.

**Status of Recommendation:**  
**Open – Some Progress.**

The USCP corrective action plan stated that management has purchased a security benchmarking product, and has customized the product to match USCP's environment. However, changes to the production environment in order to meet the security benchmarks have not yet been implemented. Additionally, although the USCP corrective action plan showed significant progress, it does not address baseline security configurations for all platforms within the USCP environment.

**Management Response:**  
***USCP management concurs.***

*A security-benchmarking tool (Security Expressions) has been acquired and implemented in August 2008. An 'out of the box' NIST based default server security baseline standard baseline option has been accepted as an operating standard. However, this baseline requires further refinement to accommodate individual application requirements. Scheduled to implement a baseline security for all production servers in FY 2008.*

*At present, all the servers are up to date in patch applications. All Antivirus software is updated automatically on a regular basis. USCP runs on a WINTEL platform.*

*All workstations and laptops, and servers have USCP approved standard configurations (images). Full disk encryption (PGP) has been purchased for all laptops. Roll out is planned in FY2008.*

**3. Management has not ensured that all information system users receive security awareness training and accept the system Rules of Behavior for using the USCP network.**

Rules of Behavior for the USCP network are documented and made available to all users in the OIS Policy Handbook. However, users are not required to officially accept the Rules of Behavior until they participate in the online security awareness training program. Through sample testing we noted that 6 out of 45 users (13%) had not yet completed the security awareness training. Additionally, we noted that only USCP employees are required to take the security awareness training. The current policy does not require contractors working for USCP and using the network to take security awareness training.

We recommend that management ensure that all system users (including contractors) receive security awareness training on an annual basis, and that management develops procedures to ensure all users agree to abide by the Rules of Behavior for using USCP systems.

**Status of Recommendation:  
Open – Some Progress.**

The USCP corrective action plan stated that they have drafted a security awareness PowerPoint presentation and Rules of Behavior guidelines form and submitted it to the Office of Policy for approval. They have also selected an online security awareness training course. Management has not yet approved the materials used for security awareness training and the Rules of Behavior have not been finalized.

**Management Response:  
*USCP management concurs.***

*OIS will co-ordinate with internal business unit, OPOL to get Rules of Behavior (RoB) document approved as soon as possible. OIS will also request co-ordination from OHR and OFM to identify new employees and contractors to undergo security training and sign Rules of Behavior (RoB) document in a timely manner.*

*User accounts for the on-line security awareness course have been created. Once approvals are obtained, notifications to take the online course will be distributed. For those unable to take the online course (for any reason) the PowerPoint presentation will be provided and they will be asked to sign the acknowledgement form and RoB document.*

*Annual Security Awareness for 2007/2008 for employees and long-term contractors is being implemented and will be completed by June 2008.*

**4. Management has not ensured that all system users for the major financial applications [REDACTED] and [REDACTED] have officially acknowledged and accepted the system specific Rules of Behavior.**

The current procedures for distributing and ensuring that major application users acknowledge system specific Rules of Behavior requires that all users review the rules individually and reply to an email stating they acknowledge the requirements. This procedure is currently in place for [REDACTED] and is soon to be implemented for [REDACTED]. However, management does not have procedures in place to ensure that all system users comply and agree to abide by the Rules of Behavior. The [REDACTED] system has been in place since October 2005 and during our sample testing, management was not able to provide evidence for 6 out of 45 selected users having acknowledged the system rules of behavior.

We recommend that management develop new procedures to ensure that all users of major financial applications review and acknowledge system specific Rules of Behavior prior to gaining system access.

**Status of Recommendation:  
Open – Some Progress.**

OIS is in the process of improving Rules of Behavior for all system users. OFM owns the [REDACTED] and [REDACTED] applications and currently requires users to accept an interim Rules of Behavior document when they receive an account.

**Management Response:**  
*USCP management does not concur.*

*Rules of Behavior were implemented in 2007 for both [REDACTED] and [REDACTED] USCP's major financial applications. System users may not have an active ID without signing an acknowledgement of understanding of the Rules of Behavior. Every current user of [REDACTED] and [REDACTED] have been required to sign the Rules of Behavior, and have done so. These signed acknowledgements are on file in OFM.*

**5. Management has not conducted risk assessments in accordance with industry best practices that consider a holistic view of system risks for all of their major systems.**

Controls are not adequate to ensure that USCP conducts risk assessments in accordance with industry best practices that consider a holistic view of system risks for all of their major systems.

Specifically we found that:

- The risk assessments prepared for the WAN and LAN were conducted in early FY 2007. The risk assessment identified a number of possible threat sources in three categories; human, natural, and environmental. However, the methodology used to identify specific system vulnerabilities only utilized a vulnerability scanning tool and manual configuration reviews. This approach identified logical access control and configuration vulnerabilities. It did not identify all potential vulnerabilities that could be associated with the human, natural, or environmental threats that were identified.
- Management has not conducted a risk assessment that covers the major application, [REDACTED]
- The risk assessment procedures for the new system, [REDACTED] produced a risk matrix spreadsheet that documented potential system risks associated with implementation. However, the process for identifying risks did not provide documented evidence of a standardized approach to addressing risks in a manner consistent with industry best practices. There was not evidence of a holistic approach to risk management that extended past the system implementation phase.

We recommend that management conduct risk assessments in accordance with guidelines and recommendations for protecting federal information systems. This risk assessment process and the documented results should be integrated into a comprehensive process for Certifying and Accrediting major systems.

**Status of Recommendation:  
Open – Limited Progress.**

Management has created a corrective action plan that calls for the certification and accreditation of additional major systems, but to date has not created any new risk assessments or updated the existing risk assessments.

**Management Response:**

*USCP management concurs.*

*Risk assessments, a portion of the overall C&A process, are scheduled to begin in December 2007.*

*This is being done by a security contractor and expected to be completed in Jan. 2008. As [REDACTED] and [REDACTED] systems are cross serviced and hosted by the Dept of Interior (NBC), USCP has requested relevant C and A documentation for these two systems.*

*All major systems will have risk assessment completed by end of December 2007 or early 2008.*

**6. Management has not created and approved system security plans in accordance with industry best practices that fully document the controls protecting major systems.**

Controls are not adequate to ensure that a system security plan has been created in accordance with industry best practices and approved for all major systems.

Specifically we found that:

- Management has not created a system security plan that covers the major application, [REDACTED]
- The system security plans that have been created for the WAN, LAN, and ODS systems do not include descriptions of recommended controls or specific information about how those controls have been applied to the systems.
- The system security plans for the WAN, LAN, and ODS (which includes [REDACTED] systems have not been finalized and approved by management.

We recommend that management create system security plans in accordance with guidelines and recommendations for protecting Federal information systems. System security plans should document all controls protecting the system and the final document should be approved by management before it is integrated into a comprehensive process for Certifying and Accrediting major systems.

**Status of Recommendation:  
Open – Limited Progress.**

Management has created a corrective action plan that calls for the certification and accreditation of additional major systems. Management has created a draft security plan for the major application, [REDACTED]

**Management Response:**  
*USCP management concurs.*

*System security plans, a portion of the overall C&A process, are scheduled to begin in Dec. 2007. A security contractor is performing this assessment based on FISMA and NIST guidelines at present. All existing major systems are scheduled to have SSP's completed by early 2008.*

**7. An independent security assessment has not been conducted for controls over major information systems.**

Controls are not adequate to ensure that an independent security assessment is performed for controls listed in the system security plans for major systems as part of the certification and accreditation process.

Specifically we found that there is no evidence of independent security testing of all the controls identified in the systems security plans as part of the certification and accreditation process. Additionally, the certification agent for major systems is also the system's Information System Security Officer. This puts him in the position of evaluating his own performance and does not allow for a completely independent and objective assessment.

We recommend that management ensures that there is an independent assessment of security controls conducted as part of a comprehensive Certification and Accreditation process.

**Status of Recommendation:  
Open – Limited Progress.**

USCP has created a corrective action plan that should address this issue during the course of a full certification and accreditation process. The corrective action plan was updated and provided to the audit team in October 2007 and has an estimated completion date in December 2008.

**Management Response:  
*USCP management concurs.***

*Risk Assessment will be part of SSP. System security plans, a portion of the overall C&A process, are scheduled to begin in Dec. 2007. A security contractor is performing this assessment based on FISMA and NIST guidelines at present. All existing major systems are scheduled to have SSP's completed by early 2008.*

**8. Management has not developed a policy and procedure to track and monitor corrective actions for known system security weaknesses.**

Controls are not adequate to ensure that management developed a policy and procedure to track and monitor corrective actions for known system deficiencies.

Specifically we found that management has a process to document responses and corrective actions for audit recommendations. However, this process only addresses audit issues and does not provide a mechanism for tracking and addressing all known system weaknesses such as those identified through the certification and accreditation process.

We recommend that management develop a process to track and manage all known system weakness. This process should include a centralized method of documenting and managing known issues, their associated corrective action plans, and the status of change implementations.

<p><b>Status of Recommendation:</b>  <b>Open – Some Progress.</b></p> <p>USCP has created a corrective action to improve the process for managing known weaknesses within the organization. This plan called for the consolidation of the existing corrective action plans and monitoring of the plan progress by senior management. However, the current process for managing corrective action plans is still functioning as a response to audit issues and does not allow USCP management to effectively manage issues across different offices or bureaus within the Department. The corrective action plan was updated and provided to the audit team in October 2007 and has an estimated completion date of December 2007.</p>	<p><b>Management Response:</b>  <b><i>USCP management concurs.</i></b></p> <p><i>All system weaknesses have been consolidated into Plans of Action and Milestones (POAM) document. Responsible individuals / units are being identified and due dates are currently being assigned for the POAM entries.</i></p>
---	--



**New Conditions from FY 2007 Audit Procedures:**

**9. Management has not received and reviewed a Statement on Auditing Standards (SAS) No. 70 report for the [REDACTED] system for FY 2007.**

Per the [REDACTED] Service Level Agreement (SLA), the Department of Interior's (DOI) National Business Center (NBC) should provide an annual SAS No. 70 report that establishes NBC's compliance with control objectives as examined by an independent firm. Through interviews, we noted that USCP has not received and reviewed a SAS No. 70 report for the [REDACTED] system for FY 2007.

A SAS No. 70 report would indicate NBC's compliance with control objectives and control activities as examined by an independent accounting and auditing firm. Without a SAS No. 70 report or equivalent, USCP management does not have assurance that the controls protecting their financial data are in place and operating effectively. This risk is increased for a new system such as [REDACTED] where management does not have control reports from previous years to rely upon. Furthermore, reviewing the SAS No. 70 report would also enable USCP management to identify policies and procedures that need to be implemented to compliment the controls already in place at NBC.

We recommend that management obtain and review a SAS No. 70 report or equivalent for the [REDACTED] system as part of their continuous monitoring process.

**Status of Recommendation:**

**Open.**

New condition.

**Management Response:**

*USCP management does not concur.*

*USCP received correspondence from NBC in addition to conversations on this topic, assuring us that a SAS-70 would be performed. NBC still failed to perform a SAS-70 review of [REDACTED] as promised. A lack of internal coordination at NBC resulted in this failure. We have been assured by NBC that a SAS-70 review is on schedule for 2008.*

**10. Management has not ensured that network accounts for terminated employees are disabled in a timely manner.**

Through testing of the OIS quarterly network account review, we noted that for the 28 employees that terminated employment in the third quarter of FY 2007, the average number of days between the termination date and account disable date was 44.5 days.

The excessive length of time between the termination-date and the account-disable date increases risk that an account may be used for fraudulent purposes after the date of employee termination.

We recommend that management ensure that terminated employees accounts are disabled in a timely manner (e.g. 24 hours). To accomplish this objective, we further recommend that the employee exit procedures are enhanced to ensure that OIS is an integral part of the termination process.

**Status of Recommendation:**  
**Open.**

New condition.

**Management Response:**  
***USCP management concurs.***

*OIS will work with OHR and OFM to get employee / contractor termination dates as soon as possible to turn off access to computer accounts. An automated information routing process will also be explored.*

**11. Management has not ensured that inactive network accounts are periodically reviewed and addressed in a timely manner.**

Through review of all accounts on the USCP network, we noted that inactive accounts are not addressed in a timely manner. Inactive accounts for current employees are not consistently disabled after a set period of inactivity. Furthermore, accounts that have been disabled for a set period of time are not removed from the system. Because of the large number of inactive accounts, the risk that these accounts could be fraudulently accessed or enabled to perform malicious acts increases.

Additionally, we reviewed the Office of Information Systems (OIS) draft policy on Account and Access Management which states that inactive accounts are to be deleted after 90 days of inactivity. Detailed testing revealed a number of accounts that have been inactive. Based on the controls in OIS draft policy, we considered an account to be inactive if it has never been used or has not been used within 90 days.

- 383 accounts have previously logged on but have not been used within 90 days and are considered inactive (Average 324 days since last logon)
- 765 total accounts are inactive (27.5% of all accounts)
- Of the 765 inactive accounts, 435 (57%) accounts have not been disabled. These accounts represent the highest risk because they are potentially the easiest targets for attack.
- Of the 765 inactive accounts, 330 (43%) accounts are disabled and according to the draft policy, should be deleted. These accounts represent a moderate risk because they are additional targets for attackers.

We recommend that management establish and implement policies and procedures that ensure inactive network accounts are periodically reviewed and addressed in a timely manner.

**Status of Recommendation:**  
**Open.**

New condition.

**Management Response:**  
***USCP management concurs.***

*There was a requirement by the former COP to provide an email account for each and every USCP employee. That requirement is now being updated. All USCP employees are supposed to check their emails on a regular basis. As all employees do not have a computer and some have blackberries they do not log on to their LAN accounts often. OIS is reviewing the list provided by the auditors. OIS will disable these accounts based the appropriate 'inactive' account status and will work with OHR on developing the appropriate policy that will delete accounts that have not been used for an appropriate period of time. Currently, a quarterly 'terminated-employee-account-culling' is in place to disable accounts belonging to terminated employees.*

**12. Management has not ensured that information system logs are being monitored in a timely manner for security violations and malicious activities.**

Controls are not adequate to ensure that active monitoring of the general support system is being performed. We noted that the Senate is monitoring the USCP network externally; however active monitoring of the network internally is not being performed. We also noted that log-monitoring software is scheduled to be purchased in FY 2009.

We recommend that management ensure that key infrastructure components of the general support system are continuously monitored for security violations and malicious activities, and reported to management in a timely manner.

**Status of Recommendation:  
Open.**

New condition.

**Management Response:**  
*USCP management concurs.*

*The network firewall logs, routers and switches are captured and reviewed using CISCO MARS reporting software on a daily basis. The server logs are captured and backed up for selected servers and periodically reviewed. Workstation logs are reviewed on 'as needed' basis. The FY 2009 budget has funding requested to purchase a logging and reporting consolidation software package. A request has also been made for security FTE in FY2009 budget. Currently, there is only one security FTE for the whole organization.*

**13. The Office of Financial Management (OFM) Continuity of Operations Plan (COOP) is not complete and up to date.**

Through review of the OFM COOP, we noted that it has not been updated since 2005. Additionally, we determined through inquiry that OFM is in the process of revising the entire COOP. OFM is working with the established COOP coordinators for both USCP and for the CAO. We also noted that the COOP is incomplete and lacks specific recovery procedures. Management does not have assurance that the current plan would allow OFM to recover operations in the specified recovery timeframes. The current recovery timeframes call for immediate recovery of all operations and systems however the supporting plan cannot provide this type of transition.

We recommend that management revise and update the OFM COOP in accordance with best practices for Federal organizations, as well as ensure that all key areas of the COOP are adequately tested and documented. We further recommend that the recovery timeframes are appropriately established as part of COOP revision process.

<b>Status of Recommendation:</b> <b>Open.</b>  New condition.	<b>Management Response:</b> <i>USCP management concurs.</i>  <i>Although the OFM COOP plan was updated in 2007, additional enhancements need to be incorporated into the COOP based on the National Institute of Standards and Technology (NIST) 800-34. The COOP enhancement is on schedule for 2008.</i>
--	---

**14. USCP does not have an approved final policy in place governing the creation of network accounts.**

We determined that no officially approved policy or procedure governing network account creation exists. Through interviews, we noted that initial requests are made directly through Altiris or via email and then subsequently entered in to Altiris. In both cases, a ticket should be created to track the account creation and approval process. We reviewed the draft OIS policy for Account and Access Management and noted that the account creation request must be made through the OIS helpdesk with an assigned ticket number. However, OIS management stated that these policies are in draft and not required for implementation. OIS management further stated that emails represent the approval for the account creation and are a sufficient level of documentation. The OIS Policy and Procedure Manual does not cover specific requirements for creating accounts on the network.

Without a standardized account approval and creation process, management increases the risk that unauthorized accounts could be created. Additionally they decrease their ability to review existing accounts for approvals and appropriateness.

We recommend management finalize and implement policies and procedures governing account creation that allow for centralized tracking of access requests.

<b>Status of Recommendation:</b> <b>Open.</b>  New condition.	<b>Management Response:</b> <i>USCP management concurs.</i>  <i>Generally an email request from the supervisor is all that is required to create an account. Altiris ticket-creation is not a pre-requisite for account creation but a tool to track help desk activity.</i>
--	---

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



Cotton & Company LLP  
635 Slaters Lane  
4<sup>th</sup> Floor  
Alexandria, VA 22314

P: 703.836.6701  
F: 703.836.0941  
www.cottoncpa.com

United States Capitol Police Board

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

We were engaged to audit 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, of the balance sheet as of September 30, 2007, and related statements of net cost, changes in net positions, and budgetary resources of the United States Capitol Police (USCP) for the fiscal year ended September 30, 2007. In a report dated November 15, 2007, we disclaimed an opinion on those financial statements as a result of scope limitations described in the third and fourth paragraphs therein.

USCP management is responsible for complying with laws and regulations applicable to the entity. An audit performed in accordance with *Government Auditing Standards* includes obtaining reasonable assurance about whether USCP's financial statements are free of material misstatement, based upon performing 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. Had we been able to perform all of the procedures necessary to express an opinion on the financial statements, other matters involving compliance with laws and regulations may have been identified and reported.

We did, however, become aware of one instance of noncompliance that we believe is required to be reported under *Government Auditing Standards*. USCP used the Security Enhancement Fund (SEF) to pay for professional services in the amount of \$32,823 in support of the Office of Financial Management's review of internal control, which is not an allowable use of the SEF.

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

COTTON & COMPANY LLP

Alan Rosenthal, CPA  
Partner

November 15, 2007  
Alexandria, Virginia