United States Capitol Police
Financial Statement and Independent Auditors' Report
Fiscal Years 2010 and 2009
OIG-2011-01

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INDEPENDENT AUDITORS' REPORT

United States Capitol Police Board

We have audited the accompanying Balance Sheets of the United States Capitol Police (USCP) as of September 30, 2010, and 2009, and the related statements of Net Cost, Changes in Net Position, and Budgetary Resources for the years then ended. These financial statements are the responsibility of USCP's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

We were unable to obtain sufficient appropriate audit evidence to substantiate balances in Construction in Progress ($23,147,515 and $15,975,725 as of September 30, 2010, and 2009, respectively) and Advances to Others ($36,745,465 and $10,969,679 as of September 30, 2010, and 2009, respectively). Construction in Progress is included on the Balance Sheets in General Property, Plant and Equipment, Net and is detailed in Note 5 to the financial statements.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the Construction in Progress and Advances to Others balances described in the preceding paragraph, the financial statements referred to in the first paragraph above, present fairly, in all material respects, the financial position of the USCP as of September 30, 2010, and 2009, and the related statements of Net Cost, Changes in Net Position, and Budgetary Resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted the Management Discussion and Analysis required by accounting principles generally accepted in the United States of America to be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by accounting principles generally accepted in the United States of America, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards*, we have issued our reports dated June 20, 2011, on our examination of USCP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements 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* and should be considered in assessing the results of our audit.

COTTON & COMPANY LLP

Alan Rosenthal

Alan Rosenthal, CPA, CFE
Partner

June 20, 2011
Alexandria, Virginia

UNITED STATES CAPITOL POLICE
Balance Sheets
As of September 30, 2010 and 2009

	FY 2010	FY 2009
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$121,141,047	$146,481,815
Accounts Receivable (Note 4)	187,260	7,280
Advances to Others (Note 3)	36,745,465	10,969,679
Total Intragovernmental	158,073,772	157,458,774
Cash and Other Monetary Assets	4,000	4,000
Accounts Receivable - Public, Net (Note 4)	63,783	73,888
General Property, Plant and Equipment, Net (Note 5)	60,753,860	59,035,476
TOTAL ASSETS	**$218,895,415**	**$216,572,138**
LIABILITIES		
Accounts Payable, Intragovernmental	$3,858,838	$3,881,515
Accounts Payable, Public	8,949,339	9,071,782
Accrued Salaries and Benefits	14,375,434	12,292,124
Accrued Unfunded Annual and Compensatory Leave (Note 6)	11,906,863	11,347,424
Actuarial FECA Liabilities (Note 6 & 10)	29,275,619	25,504,277
Other (Note 7)	426,555	156,823
TOTAL LIABILITIES	**68,792,648**	**62,253,945**
NET POSITION		
Cumulative Results of Operations	20,716,735	23,353,083
Unexpended Appropriations	129,386,032	130,965,110
TOTAL NET POSITION	**150,102,767**	**154,318,193**
TOTAL LIABILITIES AND NET POSITION	**$218,895,415**	**$216,572,138**

The accompanying notes are an integral part of these financial statements

UNITED STATES CAPITOL POLICE
Statements of Net Cost
For the Years ended September 30, 2010 and 2009

	FY 2010	FY 2009
STRATEGIC GOALS:		
Assess the Threat		
Gross Costs	$64,957,754	$58,156,922
Prevent		
Gross Costs	100,569,906	97,708,667
Respond		
Gross Costs	86,223,337	76,474,754
Support the Mission		
Gross Costs	132,388,687	120,654,823
Less: Earned Revenues	(241,116)	(61,744)
	132,147,571	120,593,079
NET COST OF OPERATIONS	**$383,898,568**	**$352,933,422**

The accompanying notes are an integral part of these financial statements

UNITED STATES CAPITOL POLICE
Statements of Changes in Net Position
For the Years ended September 30, 2010 and 2009

	FY 2010	FY 2009
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$23,353,083	$39,757,915
Adjustments:	(169,347)	($178,793)
Beginning Balances, as Adjusted	$23,183,736	39,579,122
Budgetary Financing Sources		
Appropriations Used	341,791,280	303,978,737
Other Financing Sources		
Imputed Financing Sources	39,640,287	32,728,646
Net Cost of Operations	(383,898,568)	(352,933,422)
Net Change	(2,467,001)	(16,226,039)
TOTAL CUMULATIVE RESULTS OF OPERATIONS	**$20,716,735**	**$23,353,083**
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$130,965,110	$57,865,198
Adjustments	$172,602	178,793
Beginning Balances, as Adjusted	$131,137,712	$58,043,991
Budgetary Financing Sources		
Appropriations Received	341,274,000	377,356,000
Appropriations Used	(341,791,279)	(303,978,737)
Appropriations Transferred In/Out, Net	387,472	356,276
Other Adjustments	(1,621,873)	(812,420)
Net Changes	(1,751,680)	72,921,119
TOTAL UNEXPENDED APPROPRIATIONS	**129,386,032**	**130,965,110**
NET POSITION	**$150,102,767**	**$154,318,193**

The accompanying notes are an integral part of these financial statements

UNITED STATES CAPITOL POLICE
Statements of Budgetary Resources
For the Years ended September 30, 2010 and 2009

	FY 2010	FY 2009
BUDGETARY RESOURCES		
Unobligated Balances, October 1	$94,953,691	$38,264,841
Recoveries of Prior Year Unpaid Obligations	1,074,964	1,879,290
Total Prior Resources	**96,028,655**	**40,144,131**
Budget Authority		
Appropriations Received	341,274,000	377,356,000
Spending Authority from Offsetting Collections	365,267	462,888
Nonexpenditure Transfers, Net	387,472	356,275
Total Budget Authority	**342,026,739**	**378,175,163**
Permanently Not Available		
Canceled Authority	(1,621,873)	(812,420)
Total Permanently Not Available	**(1,621,873)**	**(812,420)**
TOTAL BUDGETARY RESOURCES	**$436,433,521**	**$417,506,874**
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred, Direct	$396,258,831	$322,553,185
Unobligated Balance Exempt from Apportionment (Note 2)	32,773,359	89,287,509
Unobligated Balance Not Available (Note 2)	7,401,331	5,666,180
TOTAL STATUS OF BUDGETARY RESOURCES	**$436,433,521**	**$417,506,874**
CHANGE IN OBLIGATED BALANCES		
Unpaid Obligations, October 1	$51,383,581	$38,130,293
Gross Obligations Incurred	396,258,831	322,553,185
Gross Outlays	(365,963,009)	(307,420,604)
Recoveries of Prior Year Unpaid Obligations	(1,074,964)	(1,879,290)
NET OBLIGATED BALANCES	**$80,604,439**	**$51,383,584**
NET OUTLAYS		
Gross Outlays	$365,963,009	$307,420,604
Offsetting Collections	(365,267)	(462,889)
NET OUTLAYS	**$365,597,742**	**$306,957,715**

The accompanying notes are an integral part of these financial statements

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, providing protective services for Members and dignitaries, installing and operating advanced security systems, and maintaining staff and equipment to respond to emergencies within its geographical jurisdiction. The agency's resources are organized into five operational units and seven administrative units as follows:

OPERATIONAL
- Operational Services Bureau
- Protective Services Bureau
- Security Services Bureau
- Uniformed Services Bureau
- Office of Plans, Operations and Homeland Security

ADMINISTRATIVE
- Office of Employment Counsel
- Office of Financial Management
- Office of Human Resources
- Office of Information Systems
- Office of Policy and Management Systems
- Office of Facilities and Logistics
- Training Services Bureau

B. Basis of Accounting and Presentation

The financial statements were prepared from the USCP's books and records in conformity with generally accepted accounting principles for federal entities, as promulgated 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 expenses by strategic goal, net of revenues; the Statement of Changes in Net Position displays the changes in the equity accounts; and the Statement of Budgetary Resources presents information on total budgetary resources available, the status of those resources and net outlays.

Throughout these financial statements certain assets, liabilities, earned revenue and costs are classified according to the type of entity with whom transactions were made. Intragovernmental assets and liabilities are those received from or due to other federal entities. Intragovernmental earned revenue represents collections or accruals of revenue from other federal entities, and intragovernmental costs result from payments to or accruals of amounts due 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 periodically enacts permanent indefinite appropriations for long term projects and initiatives that are available for obligation over a period of years or until expended.

The USCP's budgetary resources 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, spending authority from offsetting collections, and non-expenditure transfers.

Generally, unobligated balances associated with resources expiring at the end of the fiscal year remain available for five years after expiration only for upward adjustments of prior year obligations, after which they are cancelled and may not be used. Remaining funds in cancelled appropriations are returned to the U.S. 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 intragovernmental assets on USCP's balance sheet and primarily represent appropriated funds that are available to pay current liabilities and finance authorized purchase commitments. The Department of the Treasury processes cash receipts and disbursements on behalf of USCP and the Agency's accounting records are reconciled with Treasury on a monthly basis.

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 capital assets when funds advanced are expensed for the project.

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 capitalization threshold established by USCP is $25,000. Capital assets are depreciated on a straight-line basis over their estimated useful lives, which range from three to ten years.

G. Liabilities

Liabilities represent amounts to be paid by the USCP as a result of transactions or events that have already occurred. 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. No liability can be paid by USCP absent an appropriation of funds by Congress. Liabilities for which an appropriation has not been enacted are unfunded, the liquidation of which is dependent on future appropriations or other funding.

H. 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 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 current 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 USCP recognizes a current period expense for the future cost of post-retirement 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.

I. Annual Leave, Compensatory Overtime, Sick and Other Leave

Annual leave and compensatory overtime leave are accrued as they are earned and reduced as they are 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 and compensatory overtime, funding will be obtained from future financing sources. Sick and other types of non-vested leave are expensed when taken.

J. Judgment Fund

Certain tort claims over $25,000 to which the USCP is a named party may be administrated and litigated by the Department of Justice in accordance with the Federal Tort Claims Act. Settlements and awards are paid from a special Judgment Fund maintained by the U.S. Department of the Treasury under the title 31 of the United States Code, section 1304. Payments by the Judgment Fund on behalf of USCP do not require reimbursement.

K. 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 of accounts with the U.S. Treasury for which the USCP is authorized to make expenditures and pay liabilities. Use of amounts donated to the USCP Memorial Fund is restricted to the fund's intended purpose. The status of funds with the U.S. Treasury as of **Error! Not a valid link.** consists of the following balances:

	FY 2010	FY 2009
Fund Type		
Appropriated	$120,775,129	$146,333,273
Special (Memorial Fund)	94,522	91,372
Miscellaneous Receipt	271,396	57,170
Total	**$121,141,047**	**$146,481,815**
Status of Appropriated Balance:		
Unobligated		
Available	$32,773,359	$89,287,509
Unavailable	7,401,331	5,666,180
Obligated, Not Yet Disbursed	80,600,439	51,379,584
Total	**$120,775,129**	**$146,333,273**

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 provided by the other federal agencies. Any unliquidated advance remaining at the end of the project will be refunded to USCP by the agencies holding the contracts.

NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable from federal agencies arise from the provision of law enforcement services for special events in accordance with an interagency agreement. The receivables due from other federal entities are considered to be fully collectible and do not require an allowance for doubtful accounts. Unbilled receivables reflect an amount previously advanced to a federal agency which will be returned to USCP because a project was completed and the remainder of the advance was no longer needed by the other federal agency. Accounts receivable from other federal agencies as of September 30, 2010 and 2009 **Error! Not a valid link.** is as follows:

	FY 2010	FY 2009
Accounts Receivable from Federal Agencies:		
Billed	$187,260	$7,280
Unbilled	0	0
Total Accounts Receivable - Federal	**$187,260**	**$7,280**

Accounts receivable from the public are recorded for amounts due from current and former USCP employees for salary overpayments, missed deductions for benefits, and other indebtedness related to time and attendance corrections, advancement of leave or unreturned property. An allowance for doubtful accounts for amounts due from employees is calculated using risk of non-collection factors as applied to an aging of the payroll receivables provided by the U.S. Department of Agriculture National Finance Center (NFC). The accounts receivable from the public as of September 30, 2010 and 2009 **Error! Not a valid link.** is:

	FY 2010	FY 2009
Accounts Receivable from the Public:		
Current and Former USCP Employees		
0-30 days outstanding	$31,389	$28,148
31-90 days outstanding	$7,846	7,275
91-180 days outstanding	$7,107	14,190
181-360 days outstanding	$14,053	10,300
Over 360 days outstanding	$37,089	38,226
Total Due from USCP Employees	$97,484	98,139
Allowance for Doubtful Accounts	(43,282)	(29,278)
Receivables Due from USCP Employees, Net	$54,202	68,861
Other	$9,581	5,027
Total Accounts Receivable - Public, Net	**$63,783**	**$73,888**

NOTE 5. GENERAL PROPERTY, PLANT AND EQUIPMENT

The composition of general property, plant and equipment as of September 30, 2010 and 2009 **Error! Not a valid link.** is as follows:

	FY 2010		
Classification	**Cost**	**Accumulated Depreciation**	**Book Value**
Building Improvements	$5,479,329	($1,263,274)	$4,216,055
Other Structures and Facilities	875,901	(533,862)	$342,039
Equipment	138,597,930	(109,003,022)	$29,594,908
Internal Use Software	11,193,630	(9,170,472)	$2,023,158
Construction-in-Process	23,147,515	0	$23,147,515
Software-in-Development	1,430,185	0	$1,430,185
Total	**$180,724,490**	**($119,970,630)**	**$60,753,860**

	FY 2009		
Classification	**Cost**	**Accumulated Depreciation**	**Book Value**
Building Improvements	$4,439,301	($781,897)	$3,657,404
Other Structures and Facilities	875,901	(447,190)	428,711
Equipment	130,671,443	(94,318,017)	36,353,426
Internal Use Software	10,390,240	(8,718,553)	1,671,687
Construction-in-Process	15,975,725	0	15,975,725
Software-in-Development	948,523	0	948,523
Total	**$163,301,133**	**($104,265,657)**	**$59,035,476**

NOTE 6. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Certain liabilities are not covered by appropriated funds or other budgetary resources. Therefore, they are dependent on future appropriations or other funding. Although future appropriations to fund these liabilities are likely, it is not certain such appropriations will be enacted. The USCP liabilities not covered by budgetary resources as of September 30, 2010 and 2009 are summarized below:

	FY 2010	**FY 2009**
Non-Federal		
Worker's Compensation Benefits (Actuarial FECA Liability)	$29,275,619	$25,504,277
Accrued Unfunded Annual Leave	$10,067,656	9,557,895
Accrued Unfunded Comp Overtime	$1,839,207	1,789,529
Total Liabilities Not Covered by Budgetary Resources	**$41,182,482**	**$36,851,701**

Beginning in fiscal year 2009, the USCP began reporting the value of unused Compensatory Overtime balances as an unfunded liability. Overall increases or decreases are reported each year as a change to the expense. The Fair Labor Standards Act (FLSA) requires that overtime is earned at one and half hours for every hour worked. This creates a liability on the part of USCP and the amount is included above.

NOTE 7. OTHER LIABILITIES

	FY 2010	FY 2009
Non-Federal		
Custodial Receipts for Memorial Fund	$94,522	$91,372
Miscellaneous Receipts due to U.S. Treasury General Fund	271,396	$57,170
Other	9,580	$5,026
Accounts Payable from Cancelled Appropriations	51,057	$3,255
Total Other Liabilities	**$426,555**	**$156,823**

NOTE 8. FEDERAL EMPLOYEE BENEFITS

The USCP's employees are eligible for benefits under either the Civil Service Retirement System (CSRS) or Federal Employees Retirement System (FERS). 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), which imposes a tax on both employees and employers to fund Social Security and Medicare 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 and Social Security or remain in CSRS.

For employees under FERS, USCP automatically withholds 1.30% of employee basic pay (excludes overtime, nighttime/Sunday/holiday differential, premium and specialty pay) for retirement. Federal agencies are required to fund a portion of FERS costs. In accordance with the 17.10% cost factor provided by OPM for FY 2010, USCP contributed 15.80% of employee basic pay in order to fund FERS benefits. These contributions, along with the **Error! Not a valid link.** withholding, are transferred to the Federal Employees Retirement Fund maintained by OPM to finance payments to retirees made by the FERS Basic Benefit Plan. The USCP also withholds 7.65% of FERS employees' total pay for FICA taxes. The FICA withholdings and matching FICA contributions made by USCP are transferred to the Social Security Administration (SSA).

The Thrift Savings Plan (TSP), as authorized by the Federal Employees' Retirement System Act of 1986, provides retirement savings and investment plan for employees covered by FERS or CSRS. For FERS employees eligible for TSP, USCP contributes 1% of basic pay and matches participants' TSP contributions up to an additional 4%. Both employee and agency TSP contributions are transferred to the Thrift Savings Fund, which is maintained by the Federal Retirement Thrift Investment Board.

For employees under CSRS, USCP withholds 7.5% of basic pay and matches this withholding with equal contributions. The sum of withholding and matching contributions is transferred to CSRS. An additional 1.45% of total pay is contributed toward Medicare on behalf of CSRS employees. For CSRS offset employees, USCP withholds **Error! Not a valid link.** of total pay for FICA taxes (up to the $106,800 for Social Security based on the maximum taxable earnings for calendar year 2010 and 2009). CSRS and CSRS offset employees may contribute up to $16,500 in 2010 and 2009 of their basic 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 (FEGLIP) and may continue to participate after retirement. The USCP makes contributions through OPM to FEHBP and FEGLIP 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 and accrued by the USCP on behalf of its employees **Error! Not a valid link.** is as follows:

	FY 2010	**FY 2009**
FICA Contributions	$14,602,515	$ 15,823,470
Health and Life Insurance (FEHBP/FEGLIP) premiums	$13,649,935	$ 12,059,216
Retirement Plan (CSRS/FERS/TSP) contributions	$33,325,629	$ 29,804,055

As of September 30, 2010 and 2009 **Error! Not a valid link.**, the USCP owes $2,557,890 and $2,586,673 in contributions for FEHBP, FEGLIP, FICA, FERS, and CSRS to OPM and Treasury, respectively. 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, *Accounting for Liabilities of the Federal Government,* 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. For Congressional employees, the FY 2010 cost factors for CSRS, CSRS offset and FERS were 41.30%, 35.90%, and 19.60% respectively. The FY 2009 cost factors for CSRS, CSRS offset and FERS were 35.70%, 30.70%, and 17.50% respectively. The OPM calculates the present value of the pension to be paid to determine the contributions necessary 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 FEGLIP, the factor is a percentage of basic pay for enrolled employees.

Using the cost factors supplied by OPM, USCP recognized to following imputed costs **Error! Not a valid link.**:

	FY 2010	FY 2009
Value of estimated future CSRS and FERS benefits to be paid	$ 7,430,586	$ 4,343,466
Value of estimated future FEHBP and FEGLIP benefits to be paid	11,430,691	10,535,949
Total Imputed Cost to USCP for Future Benefits Payments	$18,861,277	$14,879,415

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 **Error! Not a valid link.** is provided below:

	FY 2010	FY 2009
USCP Memorial Fund (Treasury Symbol 02X5083):		
Beginning Balances	$91,372	$91,372
Donations Collected and Deposited to the U.S. Treasury	3,150	0
Ending Balances	$94,522	$91,372

NOTE 10. WORKER'S COMPENSATION

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. As of September 30, 2010 and 2009, an intragovernmental liability of $3,242,481 and $3,367,091 exists for amounts paid by DOL on behalf of USCP to agency employees who had filed worker's compensation claims. This amount is reimbursable to DOL.

The actuarial FECA liability represents an estimate of future worker's 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 30th 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 payments so benefits are stated in current-year constant dollars. The USCP recorded an estimated liability for claims incurred but not reported of $29,275,619 and $25,504,277 as of September 30, 2010 and 2009, respectively, which is expected to be paid in future periods.

NOTE 11. IMPUTED COST AND FINANCING SOURCE FOR LEASED SPACE

The USCP occupies commercial spaces in various buildings and grounds throughout the Capitol Hill campus that are leased by the Architect of the Capitol (AOC), including the Fairchild Building. In addition, the USCP occupies the Practical Applications Center (PAC) which is owned by the Department of Homeland Security. The USCP does not reimburse the Architect of the Capitol for its share of the leases or the Department of Homeland Security for space utilized in the PAC. In accordance with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards,* USCP recognizes identified costs paid on its behalf by other agencies as expenses to USCP. Imputed costs and financing sources for leased space **Error! Not a valid link.** September 30, 2010 and 2009 was $20,779,009 and $17,849,232 respectively.

NOTE 12. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

This footnote reconciles the net obligations with the net cost of operations. The section entitled Resources Used to Finance Activities reflects the budgetary resources obligated and other resources used to finance the activities of the agency. The section entitled Resources Used to Finance Items Not Part of Net Cost of Operations adjusts the total resources used to finance the activities of the entity to account for items that were included in net obligations and other resources but were not part of the net cost of operations. The section entitled Components Requiring or Generating Resources in Future Periods identifies items that are recognized as a component of the net cost of operations for the period but the budgetary resources (and related obligation) will not be provided (or incurred) until a subsequent period. Net Cost of Operations is also reported on the Statement of Net Cost.

RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

	FY 2010	FY 2009
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated		
Obligations Incurred	$396,258,831	$322,553,185
Less: Spending Authority from Offsetting Collections and Recoveries	(1,440,231)	(2,326,745)
Obligations Net of Offsetting Collections and Recoveries	394,818,600	320,226,440
Less: Offsetting Receipts	0	0
Net Obligations After Offsetting Receipts	394,818,600	320,226,440
Other Resources		
Imputed Financing Costs Absorbed by Others	39,640,287	32,728,646
Total Resources Used to Finance Activities	**$434,458,887**	**$352,955,086**
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Changes in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not yet Provided	(53,238,665)	(16,555,845)
Resources that Fund Expenses Recognized in Prior Periods	3,822,400	3,666,625
Resources that Finance the Net Acquisition of Fixed Assets	(19,318,617)	(16,889,298)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**($68,734,882)**	**($29,778,518)**
RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS	**$365,724,005**	**$323,176,568**
Increase in Annual Leave Liability	610,496	2,733,642
Increase in Exchange Revenue Receivable from the Public	0	0
Other	(51,057)	0
Total Components of Net Cost of Operations that will Require or Generate Resources in the Future Periods	**$559,439**	**$2,733,642**
Depreciation and Amortization	17,350,536	22,590,035
Revaluation of Assets or Liabilities	249,925	4,462,015
Other	14,663	(28,838)
Total Components of Net Cost of Operations that will Not Require or Generate Resources	**$17,615,124**	**$27,023,212**
Total Components of Net Cost of Operations that will Not Require or Generate Resources in the Current Period	**$18,174,563**	**$29,756,854**
NET COST OF OPERATIONS	**$383,898,568**	**$352,933,422**

NOTE 13. UNDELIVERED ORDERS

Undelivered orders represent appropriations obligated for goods or services ordered but not yet received. These include unpaid and advanced amounts recorded in the fiscal period just ended, upward adjustments of unpaid undelivered orders originally recorded in a prior fiscal year, and recoveries resulting from downward adjustments of undelivered orders originally recorded in a prior fiscal year. The amount of budgetary resources obligated for undelivered orders as of September 30, 2010 and 2009 **Error! Not a valid link.** was $90,411,350 and $37,107,840 respectively.

NOTE 14. COMMITMENTS AND CONTINGENCIES

The USCP is involved in various lawsuits incidental to its operations. When a condition, situation or set of circumstances gives rise to a possible or probable loss to the agency due to the likelihood of one or more future events occurring or failing to occur, the USCP recognizes and/or discloses a contingent liability in accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities from Litigation*. As of September 30, 2010 and 2009 **Error! Not a valid link.**, there were no litigation related contingencies that required recognition or disclosure.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

United States Capitol Police Board

We have examined the effectiveness of the United States Capitol Police (USCP) internal control over financial reporting as of September 30, 2010, and 2009, based on *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.

An entity's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

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 the policies or procedures may deteriorate.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in USCP's internal control briefly described in the following paragraph and specified in Findings 1 and 2 to be 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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in USCP's internal control briefly described in the following paragraph and specified in Finding 3 to be a significant deficiency.

USCP's information technology lacked controls to ensure that adequate oversight of contractor and outsourced systems was performed, and that security configuration baselines were fully implemented.

In our opinion, because of the effects of the material weaknesses and significant deficiency described above on achieving objectives of the control criteria, USCP has not maintained effective internal control over financial reporting as of September 30, 2010, and 2009, based on *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States.

USCP management's responses to the findings identified in our audit are included below. We did not audit USCP management's responses, and accordingly, we express no opinion on them.

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

COTTON & COMPANY LLP

Alan Rosenthal

Alan Rosenthal, CPA, CFE
Partner

June 20, 2011
Alexandria, Virginia

Report on Internal Control Weaknesses
Fiscal Years 2010 and 2009 Examinations of Effectiveness of Internal Control
United States Capitol Police

In performing the Fiscal Years (FYs) 2010 and 2009 examinations of the effectiveness of USCP internal control over financial reporting, we identified three control deficiencies. We consider two to be material weaknesses, and the third to be a significant deficiency. These three findings were reported in the FY 2008 examination report.

The Office of Human Resources (OHR) made limited progress toward implementing payroll processing recommendations. Eight deficiencies were noted in FY 2008 that were carried forward to the current examination period. While two of these conditions were closed during the FY 2010 and 2009 examinations, we identified six new deficiencies, which resulted in our conclusion that a material weakness associated with payroll processing still exists. See Finding 1.

The Office of Financial Management (OFM) made limited progress toward addressing the conditions that resulted in a material weakness associated with managing financial operations. Twenty-six deficiencies were noted in FY 2008 that were carried forward to the current examination period. While 15 of these conditions were closed during the FY 2010 and 2009 examinations, we identified 16 new deficiencies, which resulted in our conclusion that a material weakness associated with financial management still exists. See Finding 2.

The Office of Information Systems (OIS) made substantial progress toward addressing prior-year information system (IS) conditions. Fourteen out of 15 prior-year conditions were closed, although we identified two new conditions. Because of progress made to address IS conditions, we have downgraded this previous material weakness to a significant deficiency for FYs 2010 and 2009. See Finding 3.

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-year findings:

- Substantial Progress
- Some Progress
- Limited Progress

We based the status of prior-year 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
Limited 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, 2010 and 2009. Eight conditions from the prior-year examination (FY 2008) are carried forward and are addressed in the first section below. We identified 6 new conditions, discussed in the second section below, resulting in 14 conditions. Two of the conditions from the prior year were closed in the current examination period leaving 12 remaining conditions that make up this material weakness.

Status of Existing Payroll Processing Conditions from FY 2008 Internal Control Report

1. Employee and Supervisor Failure to Sign Bi-Weekly Certification Reports

We noted during FY 2009 testing of time and attendance that USCP policy requiring employees and supervisors to sign and date time-and-attendance certification reports was not consistently implemented by the Command Center Division.

- Of 58 certification reports reviewed for pay period (PP) 16, one was not signed by the employee.
- Of 59 certification reports reviewed for PP 17, one was not signed by the employee.
- Of 58 certification reports reviewed for PP 16, two were not signed by a supervisor.
- Of 59 certification reports reviewed for PP 17, one employee used the supervisor's signature stamp to approve the employee's own certification report.

We noted the following during FY 2010 testing:

- Of 33 certification reports reviewed for PP 11 from the Training Services Bureau, two were not signed by the employee and another two were not signed by a supervisor.
- Of 24 certification reports reviewed for PP 4 from the Patrol Division, one was not signed by the employee.

Recommendation: We recommend that USCP consistently implement time-and-attendance certification policies and procedures and that timekeepers review all certification reports to ensure that employees and supervisors sign and date reports.

Status of Prior-Year Recommendation: Limited Progress (FY 2008 Finding Number 1.2)

Management Response: *We concur with the auditors' findings. OHR will work with the CAO and the COO to ensure consistent implementation of time and attendance certification policies. To date, three internal time and attendance field audits have been conducted at the Command Center, and many of the issues cited by the auditors have already been identified internally. OHR will continue its aggressive field auditing and training efforts.*

Auditor's Evaluation of Management Response: We noted that OHR conducted an internal audit of time-and-attendance certifications in July 2009. Exceptions were still identified in the FY 2010 and 2009 examinations.

2. Lack of Confirmation of Time-and-Attendance Certification Completion

During control testing over time and attendance, we noted that the Administrative Officer for the Command Center Division had not submitted required certification e-mail reports to the OHR Time and Attendance Division for PPs 16 and 17 as of September 17, 2009. We also noted that numerous USCP Divisions, in addition to the Command Center, had not submitted their certification e-mail reports for PPs 12, 13, and 16 to the OHR Time and Attendance Division in a timely manner.

Recommendation: We recommend the OHR Time and Attendance Division communicate to Bureau Commanders their responsibility to submit required certification email reports at the close of each pay period to [redacted] support. We also recommend that the OHR Time and Attendance Division notify the Chief Administrative Officer and Chief of Police when timekeepers have not complied with the time-and-attendance standard operating procedure to submit bi-weekly certification e-mail reports to OHR.

Status of Prior-Year Recommendation: Limited Progress (FY 2008 Finding Number 1.3)

Management Response: *The OHR Time and Attendance Team has communicated to Bureau Commanders their responsibility to submit the required e-mail certification report at the close of each period. OHR will continue its aggressive field auditing and training efforts. OHR will advise the CAO of instances of noncompliance. The CAO will address the issue with the Chief of Police and Assistant Chief.*

3. Timekeeper's Failure to Maintain Employee Bi-Weekly Certification Reports

During FY 2009 testing over time and attendance, we noted that the USCP House Division did not consistently adhere to USCP policy requiring timekeepers to maintain time-and-attendance certification reports for each employee.

- Of 54 employee certification reports reviewed for PP 12, we could not locate one employee certification report in the timekeeper's time-and-attendance files.
- Of 59 employee certification reports reviewed for PP 13, we could not locate 10 employee certification reports in the timekeeper's time-and-attendance files.

Additionally, the USCP Command Center and House Divisions did not consistently implement USCP policy requiring timekeepers to maintain documented support for employee leave use and additional duty.

- Of 54 PP 12 employee certification reports reviewed for the House Division, documentation supporting leave usage was not maintained in four instances.
- Of 59 PP 13 employee certification reports reviewed for the House Division, documentation supporting leave usage was not maintained in two instances.
- Of 58 PP 16 employee certification reports reviewed for the Command Center, documentation supporting leave usage was not maintained in five instances.
- Of 59 PP 17 employee certification reports reviewed for the Command Center, documentation supporting leave usage was not maintained in six instances.
- Of 58 PP 16 employee certification reports reviewed for the Command Center, documentation supporting additional duty hours worked was not maintained in four instances.
- Of 59 PP 17 employee certification reports reviewed for the Command Center, documentation supporting additional duty hours worked was not maintained in nine instances.

We noted the following during FY 2010 testing:

- Of 33 PP11 employee certification reports reviewed for the Training Services Bureau, documentation supporting leave usage was not maintained in two instances.
- Of 24 PP4 employee certification reports reviewed for the Patrol Division, documentation supporting leave usage was not maintained in four instances.
- Of 39 PP4 employee certification reports reviewed for the Capital Division, documentation supporting leave usage was not maintained in one instance.

Recommendation: We recommend that USCP consistently implement time-and-attendance certification policies and procedures.

We recommend that timekeepers verify that all required reports exist for each employee for each pay period and maintain all forms of documentation to support approved leave and additional duty.

We recommend that OHR ensure all timekeepers understand documentation requirements for supporting time-and-attendance certification reports.

We recommend that USCP attach leave approval and additional duty approval forms to certification reports before being filed.

Status of Prior-Year Recommendation: Limited Progress (FY 2008 Finding Number 1.4)

Management Response: *We concur with the auditors' findings. OHR will continue to work with the CAO and the COO to ensure consistent implementation of time and attendance certification policies. To date, three internal time and attendance field audits have been conducted at the Command Center, and many of the issues cited by the auditors have already been identified internally. OHR will continue its aggressive field auditing and training efforts.*

4. Difference of Annual Leave Hours in NFC and [redacted]

During FY 2009 testing over annual leave balance, we identified differences of annual leave hours in [redacted] and NFC for 4 out of 10 samples.

Recommendation: We recommend that OHR perform periodic reconciliations between [redacted] and NFC to ensure that information such as annual leave balance is correctly reported in both systems.

Status of Prior-Year Recommendation: Some Progress (FY 2008 Finding Number 1.6)

Management Response: *We concur with the auditors' findings and will proceed with implementing periodic reconciliation.*

5. U.S. Capitol Police Separation Checklist and Personnel Action Forms Missing

During FY 2009 testing of separated-employee files, 1 of 12 files reviewed did not contain the [redacted] and the [redacted]. We followed up with OHR and were told that the separation packet for the employee, who had separated on July 1, 2009, had not been fully processed by time the review took place on August 28, 2009.

Recommendation: We recommend that OHR modify its administrative policy for separating employees from USCP to include a timeframe for processing and filing all pertinent documents, such as the [redacted] and [redacted]

Status of Prior-Year Recommendation: Limited Progress (FY 2008 Finding Number 1.8)

Management Response: *Each employee's separation paperwork requires varied processing time dependent upon several factors to include but not limited to: years of service, prior Federal service, leave balances, retirement computations, military service and buyback, etc. Therefore, setting a timeframe for the completion of these documents is not practicable. It is in OHR's practice to complete all required paperwork and processing for separations in a timely manner. The case referenced was in fact completed and sent to NFC for retirement processing on July 27, 2009, less than 30 days from the individual's separation date. The file was unavailable for review by the auditors due to ongoing processing of the employee's leave balances. Upon completion of these actions, the necessary forms were filed into the personnel folder and the folder was placed into the inactive files.*

Auditor's Evaluation of Management Response: OHR sent the employee's paperwork to NFC for retirement processing on July 27, 2009. At the time of our testing on August 28, 2009, the [redacted] and [redacted] forms were not yet completed.

6. Noncompliance with Employee Clock Usage

We obtained employee clock usage reports for PPs 15, 16, and 17 for the Capitol, Patrol, and Senate Divisions. We identified 1,476 instances where officers had failed to clock in or out for their respective shifts. From the reports, we identified 7 employees from the three divisions who had failed to clock in or out 10 times or more for the three pay periods.

We obtained employee daily timesheets to review timekeeper justifications for failure by the seven employees to clock in or out. Timekeepers did not provide justifications for employee failures to clock in and out, and when they did, it was inadequate.

During control testing over employee clock usage to identify irregularities and/or failure to clock in and out as required, we obtained the No Swipe Report for FY 2010. This report showed 32,998 instances in which employees failed to clock in or out for their respective shifts. Of 15 timesheets reviewed, 11 did not provide sufficient justification for the failure to clock in or out as required.

Recommendation: We recommend USCP ensure that its employees comply with USCP Special Directive No [redacted] addressing responsibility to record daily worked hours using the Department's [redacted] time clocks. We recommend supervisors continuously monitor employees who show a pattern of not clocking in or out and verify if hours entered into [redacted] are actual hours worked by the employee.

Status of Prior-Year Recommendation: Limited Progress (FY 2008 Finding Number 1.9)

Management Response: *We concur with the auditors findings. OHR will continue to work with the CAO and COO to ensure the recording of daily hours worked using the Department's time clocks, and implement supervisory monitoring of those habitually not utilizing the time clocks. OHR will continue its aggressive field auditing and training efforts to monitor this matter.*

7. Night Differential

OHR did not have controls in place to ensure that civilians assigned to day shifts do not receive night differential pay for which they are not entitled.

Recommendation: We recommend that CAO develop procedures to enable supervisors responsible for reviewing and approving certification reports to identify circumstances in which civilian personnel would be entitled to night differential pay. As an alternative, [redacted] could be programmed to incorporate the rule.

Status of Prior Year Recommendation: Closed (FY 2008 Finding Number 1.10)

Management Response: N/A

8. Timekeepers Editing

Timekeepers have the ability to alter time records before OHR lock down of [redacted] and after certification reports are printed.

Recommendation: We recommend that the CAO implement a procedure to add a system date to certification reports to document when timekeepers print reports.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 1.12)

Management Response: N/A

<u>**New Payroll Processing Conditions from FY 2010 and FY 2009 Examination Procedures**</u>

9. Missing Personnel Information

During FY 2010 control testing over personnel folders for new hires (sworn and civilian), all new-hire information was missing in 1 of 30 selected files reviewed. Additionally, the following documents were missing from the remaining 29 files:

- Federal Employees Health Benefits (FEHB) form (6 instances)
- Federal Employee's Group Life Insurance (FEGLI) form (11 instances)
- Appointment affidavit (1 instance)
- Signed nepotism form (11 instances)

During FY 2010 control testing of civilian promotions, we noted that promotion paper work and approvals were missing in 1 of 24 files reviewed.

During FY 2010 control testing of the separated employee files, we noted that the [redacted] form was missing in 1 of 30 files reviewed.

During FY 2010 year end testing over personnel folders for new hires, we noted that the FEHB form was missing in 1 of 45 files tested.

Recommendation: We recommend that OHR modify its administrative policy for processing and maintaining personnel records to include a timeframe for processing and filing all pertinent documents.

Status of Recommendation: Not Started – New Condition

Management Response: *All cited instances where the auditing firm was able to provide specific names, OHR was able to research and either provide documentation or documentation was not required based on case specifics. However, we are not able to validate the remainder of the auditors' comments without additional detail. OHR is able to provide FEHB information for the one instance cited. We believe this finding should be removed.*

Auditor's Evaluation of Management Response: We revised the condition to delete reference for three of the findings related to Library of Congress (LOC) employees who transferred to USCP. In response to "where the auditing firm was able to provide specific names," we communicated PBC requests with OHR during FY 2010 financial statement examination and attempted to follow up on any missing items. We think that ample opportunity was provided to produce the requested support.

In addition, the purpose of this test is to determine the existence and completeness of personnel files. At the time of testing, the forms in question were not located in the central personnel file. Therefore, the condition is valid. Regarding FEHB information: when we followed up with OHR via email on January 10, 2011, the response we received from OHR stated: "For [the employee at issue], we provided an updated PQ32. I believe the most recent FEHB form is simply missing."

10. Untimely Review of Time-and-Attendance Certification Completion

During FY 2009 control testing over time and attendance, we noted that the time-and-attendance confirmation certification report for PP 17 had not been prepared by the OHR Time and Attendance Division as of September 17, 2009, three weeks after the closing of PP 17.

Recommendation: We recommend the OHR Time and Attendance Division monitor timekeeper distribution and collection of certification reports to complete its time-and-attendance review procedures at the end of each pay period. We also recommend that the OHR [redacted] include a deadline for time-and-attendance staff to complete the time-and-attendance confirmation of certification report.

Status of Recommendation: Not Started – New Condition

Management Response: *We concur with the findings and will complete post payroll certifications within one week of the close of the pay period. However, with 93 timekeepers in the field and an OHR time and attendance staff of 2, the recommendation of further monitoring and subsequent enforcement of deadlines is not practicable. OHR will include in its process a deadline of one pay period for confirmation of the Certification report.*

Auditor's Evaluation of Management Response: Our recommendation is for OHR to include a timeliness requirement (deadline) for completing post-payroll certifications in its OHR Standard Operating Procedure (SOP). It is appropriate that management determine a reasonable timeline for this process.

11. Lack of Review of SAS 70 Report over NFC

OHR did not review the Audit Report for Statement on Auditing Standards No. 70 on National Finance Center General Controls - FY 2010 and 2009 to determine if any weaknesses were identified and if USCP had controls in place to mitigate weaknesses, if any.

Recommendation: We recommend that OHR obtain and review annual SAS 70 audit reports on NFC general controls and document review results.

Status of Recommendation: Not Started – New Condition

Management Response: *The SOP referenced needs revision to assign the responsibility for the review of the SAS 70 as a CFO function.*

Auditor's Evaluation of Management Response: We agree with this suggestion. Our primary interest is ensuring that reviews are performed.

12. Lack of Supporting Documentation for OHR's June Time-and-Attendance Audit

During our substantive testing for the FY 2009 examination, we followed up with OHR regarding its June 2009 agency wide audit of time and attendance. No supporting documentation was available to corroborate criteria used during the time-and-attendance review or identify the population selected and sample size tested.

Recommendation: We recommend the OHR Time and Attendance Division document its sample-selection methodology to include the number of USCP divisions selected and number of certification reports tested within each selected division. We also recommend that the Time and Attendance Division generate an official documented summary of all audit findings and develop recommendations for improvements if necessary.

Status of Recommendation: Not Started – New Condition

Management Response: *The Time and Attendance Field Auditing initiative was not fully implemented until July of 2009 (therefore supporting documentation would not be present for all of FY09). Upon full implementation of the initiative, summaries of each audit are provided to the Bureau commanders. These memorandums do detail the number of employees randomly selected and have been deemed sufficient by USCP's management team. With a limited staff, any further reporting requirements would be administratively cumbersome.*

Auditor's Evaluation of Management Response: We were aware of the internal review of time and attendance in July 2009 and reviewed a July 2009 memorandum at the time of testing. USCP did not, however, provide documentation regarding the population, sample size, and criteria used in its review. Therefore, the condition remains valid.

13. Segregation of Duties

USCP controls were not adequate to ensure that individuals do not have complete control over incompatible functions either within or across all financial applications. We identified four OHR users with elevated access to both [redacted] and the NFC to perform incompatible functions across applications.

Recommendation: We recommend that USCP develop, document, and implement a segregation-of-duties matrix to identify incompatible functions across [redacted] and NFC. We also recommend that management review all user accounts and ensure that users are assigned appropriate roles within and across applications to prevent control over incompatible functions.

Status of Recommendation: Not Started – New Condition

Management Response: *We concur with the finding and will perform adjustments to user roles where necessary.*

14. Health and Life Insurance Forms absent from Employee Personnel Files

During FY 2009 control testing over personnel folders for new hires (sworn and civilian), FEHB forms were missing from 10 of 45 employee personnel files reviewed, and FEGLI forms were missing from 22 of the files.

Recommendation: We recommend that USCP process all paperwork for new employees (sworn or civilian) and that the records room officer responsible for creating employee files obtain all applicable documents and process them electronically utilizing the Infolinx system.

Status of Recommendation: Not Started – New Condition

Management Response: *According to the Office of Personnel Management (OPM) guidelines it is the employee's responsibility to make an election in the FEHB program within 60 days of appointment. Employees can either submit a form SF-2809 or enroll electronically. If the employee does not make an election they are considered to have declined coverage, and there is no form to file in the employee's personnel folder. If an employee opts to enroll electronically (the preferred and recommended method), no form is generated. USCP can verify the employee's FEHB coverage via NFC system- screen 115.*

Federal employees use form SF- 2817 to sign up for or cancel FEGLI. New Federal employees in eligible positions are automatically covered by basic FEGLI and do not need to use this form if they want only basic coverage. USCP employees that do not submit a form are automatically covered under basic coverage and will see the deductions withheld on their leave and earning statement. Coverage is also indicated on the SF-50, which the employee receives by mail.

USCP can verify the employee's life insurance coverage via NFC system- screen 116. While the cited OHR SOP [redacted] does specify where items are to be placed in the central personnel folder, it does not state that these forms are required. 9 of the 10 cited FEHB forms and 22 of 22 cited FEGLI forms are fully accounted for in OHR files.

Auditor's Evaluation of Management Response: We recommend that OHR comply with its SOP [redacted] which specifies that required personnel forms be included in the central personnel file. If OHR determines, however, that the current requirement for FEGLI and FEHB forms is not applicable, we recommend that OHR revise its SOP accordingly.

Finding No. 2: Financial Management

Summary Status: Material Weakness
Prior Finding
Limited Progress

The prior-year internal control examination 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 2010 and 2009 examinations found that this finding continued to exist. Twenty-six conditions from the prior-year examination (FY 2008) are carried forward and are addressed in the first section below. We identified 16 new conditions, discussed in the second section below, resulting in 42 deficiencies creating this material weakness. Fifteen of the conditions from the prior year were closed in the current examination period leaving 27 that make up this material weakness.

During FYs 2004 through 2008, USCP implemented many recommended policies and procedures. Significant turnover in key positions involving financial reporting, however, had a substantial impact on USCP's financial reporting capability for FY 2008. During FY 2010 and FY 2009, turnover in these key positions continued. Both the CAO and CFO who were appointed in FY 2008 resigned during FY 2010, and these positions were filled in acting capacities until February 2011. Accordingly, new personnel did not have an opportunity to influence conditions described in this report.

In light of the continued deficiencies in financial management, the increase in deficiencies in this report versus our prior report, and the turnover experienced in key positions, we recommend that USCP focus on assessing the effectiveness of the design and operation of their policies, procedures and internal controls. This review should include an evaluation of the composition and qualifications of all financial management personnel.

<u>**Status of Existing Financial Management Conditions from FY 2008 Internal Controls Report**</u>

1. Lack of controls for receiving lines

USCP did not have controls in place to prevent payments from being applied to incorrect accounting lines on Receiving Documents (REC). Of 13 samples identified, 7 were manual corrections to fix misapplication of RECs entered into [redacted] by Finance Liaison Officer's (FLO). This condition is a contributing factor to late payments.

Recommendation: We recommend that the CAO develop policies and procedures to identify and prevent these types of errors from occurring in the future.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 2.1.A)

Management Response: N/A

2. Use of Cancelled Funds

OFM did not have procedures in place to ensure that restricted-use funds were used as described in statute. We identified one contract that obligated funds from the Security Enhancement Fund (SEF), Capitol Complex Security fund (CCS), and No Year fund (NOY) totaling $77,771 to pay for OFM contract staff.

Recommendation: We recommend that the CAO develop a procedure requiring documented justification for using restricted funds.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 2.1.B)

Management Response: N/A

3. Noncompliance with Cash Receipt Directives

USCP policy requiring OFM to log and place received checks into the safe is not adhered to consistently. We identified five instances in which OFM procedures were not followed. Of 39 cash receipts reviewed, 18 were not deposited within 72 hours.

Recommendation: We recommend that the CAO adhere to all of USCP's policies.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 2.1.C)

Management Response: N/A

4. Use of Reconciliation Checklist

OFM's Corrective Action Plan identified the reconciliation matrix, USCP Periodic Accounting Reconciliation and Other Control Activities and Approval Dates, as the process for ensuring that control activities are completed and/or reviewed in a timely manner. This checklist is not consistently completed and reviewed in a timely manner.

Recommendation: We recommend that the CAO develop procedures to ensure that all corrective actions implemented are performed consistently.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 2.1.D)

Management Response: N/A

5. GL Account 4210 – Anticipated Reimbursements

OFM did not have controls in place to ensure that timely recording of budgetary authority occurs after USCP has received spending authority from offsetting collections.

Recommendation: We recommend that CAO amend cash-collection procedures to ensure that the Budget Office is immediately notified of spending authority from offsetting collections, with follow-up to ensure the budgetary entries are made in [redacted]

Status of Prior-Year Recommendation: Limited Progress (FY 2008 Finding Number 2.1.E)

Management Response: *We concur with the findings. We will establish additional procedures to validate that the budget entries are made timely and correctly at year end. We would like to note, however, that for the interim statements such as the 6/30 on which this finding is made, there will be timing differences. Unlike year-end, there are no adjusting periods in which to finalize these types of entries. Account 4210 does not have a balance at year-end. In addition, there is no requirement for quarterly financial statements for a Legislative Branch agency.*

Auditor's Evaluation of Management Response: USCP concurred with our finding, and management is aware that substantive testing for the audit is performed as of June 30, thus requiring reliance on interim financial statements as of that date. Thus, it is critical that those statements fully comply with GAAP.

6. Calculation of Payroll Accrual

The Payroll Certification prepared by OFM and signed by the CAO uses a cost factor to estimate/project payroll benefits each pay period. OFM did not evaluate actual costs against estimated costs until the end of FY 2008. OFM determined that the factor used during FY 2008 was low by 11 percent. We estimated that the payroll certification was understated each pay period by approximately $450,000.

Recommendation: We recommend that the CAO develop procedures to evaluate actual cost verses certified costs each pay period and make adjustments to the cost factor throughout the year as needed.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 2.1.F)

Management Response: N/A

7. Accounts Payable – Untimely Vendor Payments

During our testing over USCP disbursement transactions we noted the following exceptions:

- In our June 30, 2009 testing, we found that 18 of the 34 or 53% of the samples tested were not promptly paid in accordance with vendor terms. Of these late payments, we noted payments were made on average 93 days late.

- In our September 30, 2009 testing, we found that 7 out of the 13 or 54% of the samples tested were not promptly paid in accordance with vendor terms. These payments were made on average 25 days late.

- In our September 30, 2010 testing, we found that 38 of the 56 or 68% of the samples tested were not promptly paid in accordance with vendor terms. Of these late payments, we noted payments were made on average 52 days late.

Recommendation: We recommend that the CAO develop procedures to accurately track receipt of invoices and ensure that vendors are paid promptly. We recommend that OFM develop procedures to determine actual dates when services or goods are delivered and develop a policy requiring FLOs to be held accountable when vendors are not paid timely and transactions are inaccurately entered into [redacted]

Status of Prior-Year Recommendation: Limited Progress (FY 2008 Finding Number 2.1.G)

Management Response: *We concur that some payments are made late and will be strengthening our tracking mechanism and procedures for follow-up on delinquent receiving documents. However, we are not able to validate the remainder of the auditors' comments without additional detail. It should be noted that OFM cannot pay invoices without the approval of the bureaus. The receiving document is prepared by the bureau and is, in effect, the bureau's approval of the invoice. Payments cannot be "driven by" the invoice date because until the bureau validates that the materials have been received or services rendered, a serious risk of erroneous payments exists. Furthermore, although OFM can "give" the FLOs a specified amount of time to complete the receiving document, enforcement of this or documentation of circumstances preventing timely preparation of the receiving document is outside the purview of accounts payable.*

Auditor's Evaluation of Management Response: Although not required to comply with Prompt Payment Act, management is responsible for developing procedures to ensure that invoice processing is completed in accordance with terms of vendor agreements.

8. Accounts Payable Invoice Tracking Spreadsheet Maintenance

USCP did not have controls in place to prevent duplicate payments from occurring in FY 2008. Two conditions existed:

- A vendor submitted two invoices for the same service or good in October 2007, and the FLO and Accounts Payable Specialist did not identify these duplicate vendor submissions.
- A batch of payments thought to be rejected was certified twice and disbursed twice by the U.S. Department of the Treasury in July 2008.

Recommendation: We recommend that OFM revise USCP Directive No. [redacted] to include updated procedures and controls. We also recommend that OFM maintain invoices on its spreadsheet for 15 months after a payment has been approved and processed.

Status of Prior-Year Recommendation: Some Progress (FY 2008 Finding Number 2.1.H)

Management Response: *We believe there is a misunderstanding of the facts pertaining to this finding and can provide supporting documentation to clarify. Invoice numbers and their dates are entered on payment transactions in* [redacted] *If that invoice is entered again,* [redacted] *will not allow the payment document to be submitted for approval. Additionally, a list of paid invoices could be misleading if, due to events that occur later, for example, payments [are] rejected by Treasury for incorrect routing or account information. We believe that maintaining this information in a single location is the most efficient control available.*

Auditor's Evaluation of Management Response: Even with controls in [redacted] duplicate payments were noted in a prior audit. As a result, we recommended that CAO track receipt of invoices and evaluate the possibility of duplicates before they occur. USCP management concurred with our recommendation and developed a tracking mechanism in the form of a spreadsheet. By deleting paid invoices from this spreadsheet, however, USCP is prevented from identifying payments that have been made.

9. Lack of Justification for Vendor Additions/Modifications in [redacted]

USCP did not have controls in place to ensure that the semi-annual review of vendor additions and modifications was completed in a timely manner. Additionally, the form to request current vendor addition or modification is not accompanied by proper approval or justification.

Recommendation: We recommend that CAO modify Directive [redacted] to include a timeline for the semi-annual review of vendor additions and modifications. We also recommend that CAO strengthen the approval process for the vendor request/modification form.

Status of Prior-Year Recommendation: Some Progress (FY 2008 Finding Number 2.1.I)

Management Response: *We concur with the finding and have established controls to prevent fictitious vendors from being added to the vendor table and to prevent vendor modification without proper authorization:*

- *For vendor additions and modifications on purchases greater than $3,000, the Procurement Division Director approves the Vendor Enrollment Form. Once approved, the form is submitted to Financial Systems for* [redacted] *to be changed.*

- *For vendor additions and modifications on purchases less than $3,000, Purchasing Agents are trained and authorized to approve the Vendor Enrollment Form. The form is then submitted to Financial Systems for* [redacted] *to be changed.*

All supporting documentation for the Vendor Enrollment Form is maintained on file as supporting evidence that the vendor addition or change is appropriate. We have revised, in draft, USCP Directive No. [redacted] *to establish a deadline for review completion. The semi-annual Vendor Creation/Modification Report Review will be completed within 45 days of the end of the period. The Directive will be issued in final in FY11.*

Auditor's Evaluation of Management Response: OFM requires the FLO or the Procurement Division to complete a Vendor Enrollment Form to request changes. The condition of this finding, however, addresses the fact that no justification for adding or modifying the vendor is included on the form.

10. Vehicle Maintenance Division (VMD) Reconciliation

USCP did not perform periodic reconciliations of Automobile Certificates of Origin/Title and did not maintain a list of vehicles maintained by VMD.

Recommendation: We recommend that CAO develop a policy requiring a quarterly reconciliation between the legal certificates/titles and the VMD list to ensure that all certificates/titles can be accounted for and are available when needed.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 2.1.J)

Management Response: N/A

11. Purchase Cardholder Listing

USCP did not have controls in place to ensure that data regarding purchase cardholders is current. Information that we received regarding cardholder names/titles and purchase limits was outdated by at least one year. The lack of current information does not provide assurance that appropriate monitoring of purchase cards is occurring.

Recommendation: We recommend that CAO develop more rigorous policies and procedures for monitoring of purchase card users.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 2.1.K)

Management Response: N/A

12. Timely Creation of Obligations for Purchase Card Program

USCP did not have controls in place to ensure that purchase cardholders created obligation documents in [redacted] within 24 hours of using the procurement card or making upward adjustments to obligations in a timely manner.

Recommendation: We recommend that CAO develop procedures to conduct detailed reviews of purchase cardholder transactions on a sample basis.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 2.1.L)

Management Response: N/A

13. Fleet Card Program Training

USCP controls to detect misuse or abuse of USCP Fleet cards are not operating as designed. OFM has controls and training for USCP Fleet Card Coordinators, but controls are not in use, and training sessions are not well attended. Additionally, USCP could not provide an accurate list of the Fleet Coordinators.

Recommendation: We recommend that CAO implement stronger controls and ensure that training is provided as appropriate.

Status of Prior-Year Recommendation: Limited Progress (FY 2008 Finding Number 2.1.M)

Management Response: *We concur with the finding. An annual online training has been developed and is in the approval process. Training will be required by all Fleet Card Coordinators and potential users of the vehicles. After completing the training a copy of the completed training certificates will be maintained by the A/OPC in Procurement and entered into the Department's training tracking system of record.*

14. Failure to Update Funds Balance With Treasury Directive

OFM has not made necessary updates to Directive No. [redacted]).

Recommendation: We recommend that CAO update directives immediately as procedures change. OFM indicated that an updated directive would be provided.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 2.1.N)

Management Response: N/A

15. Significant Adjustment to FBWT Required

A significant adjustment was posted to the FBWT account in error. An adjustment for $9,777,198 to cancel FY 2003 funds was incorrectly entered into [redacted] during Fiscal Month 4 of FY 2008. OFM detected and corrected this error in Fiscal Month 9.

Recommendation: We recommend that CAO develop procedures to prevent significant erroneous entries as well as procedures to detect significant errors in a timelier manner. Preparing complete financial statements each fiscal quarter is integral to this recommendation.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 2.2.A)

Management Response: N/A

16. SBR and Footnotes

OFM made a number of errors on the Statement of Budgetary Resources (SBR) and Note 12, Reconciliation of Net Cost of Operations to Budget (RNCB), resulting in misstated line items due to either exclusion of accounts or use of erroneous account balances.

Recommendation: We recommend that CAO develop a more rigorous quality assurance process.

Status of Prior-Year Recommendation: Limited Progress (FY 2008 Finding Number 2.2.B)

Management Response: *We concur that the financial statement preparation requires additional review and tighter controls. We have already developed improved methods to prepare the reconciliation of net operating costs to budget . In addition the Director, OFM or Deputy Director, OFM will personally review all versions of the financial statements provided going forward. Additionally, the auditors' references to plug figures in accounts 4802 and 1720 may result from a difference of opinion between OFM and the auditors on the method of reporting the construction in progress and the advance amounts for cancelled funds. However, since ratification of the TIMP costs from FY 2003, USCP now has extended disbursement authority to record the changes in these categories in both budgetary and proprietary accounts.*

Auditor's Evaluation of Management Response: We agree that the ratification of TIMP costs extended the disbursement authority of Budget Fiscal Year 2003 fund. This, however, has no impact on reporting balances for Accounts 4802 and 1720.

17. FACTS II Submission at Yearend

OFM did not resolve the "Editing" Status for year-end submission of the Federal Agencies' Centralized Trial-Balance System II (FACTS II), related to two Treasury symbols (240476 and 270476) at September 30, 2009 and one Treasury symbol (020405476) at September 30, 2010 for submission of the .

Recommendation: We recommend that OFM resolve issues identified in the Quarterly FACTS II before yearend.

Status of Prior-Year Recommendation: Limited Progress (FY 2008 Finding Number 2.2.C)

Management Response: *We generally agree with the finding. Note that USCP is not required to submit FACTS II but does so as a "best practices" decision. Note that while the variance was "immaterial" the problem that caused the failed edit was not. The imprest fund variance (which was created in FY 2003 and 2004) was not visible in any Treasury report. The issue was unprecedented at Treasury Financial Management Service and required extensive research to determine the reason for the failed edit. OFM was frequently in contact with FMS in FY 2009 to try to get the issue resolved. This issue is now resolved.*

18. Misstatement of Accrued Benefits Liability

OFM did not correctly state accrued benefits liability in Note 8 of the financial statements. It correctly recorded the value in the Trial Balance, but failed to carry the correct number into the footnote disclosures. Additionally, an undetected typographical error in Note 6 understated Accrued Unfunded Leave by $7.8 million.

Recommendation: We recommend that CAO develop a more rigorous quality assurance process.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 2.2.D)

Management Response: N/A

19. Erroneous Adjustment in FECA Liability

OFM did not correctly adjust the Workers Compensation Benefits FECA liability account by $1,607. The $1,607 error in the liability account additionally created a $6,690 misstatement in the FECA actuarial account.

Recommendation: We recommend that CAO develop a more rigorous quality assurance process.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 2.2.E)

Management Response: N/A

20. Misrepresentation of Cost Factors Used to Calculate Federal Employee Benefits

OFM disclosed the Federal Employee Benefits in Note 8. Amounts disclosed were, however, incorrect and materially misstated, as summarized for FYs 2009 and 2010 below:

FY 2009 Contributions	Examination Amounts	OFM Amounts	Differences
FICA Contributions	$15,823,470	$8,675,173	$7,148,297
FEHBP/FEGLIP Premiums	$12,059,216	$11,330,596	$728,620
CSRS/FERS Contributions	$29,804,055	$18,093,059	$11,710,996

FY 2010 Contributions	Examination Amounts	OFM Amounts	Differences
FICA Contributions	$14,602,515	$25,080,626	$(10,478,111)
FEHBP/FEGLIP Premiums	$13,649,935	$16,964,774	$(3,314,839)
CSRS/FERS contributions	$33,325,629	$30,963,080	$2,362,549

USCP incorrectly listed FY 2009 cost factors, as shown below:

	Incorrect for 2009	Correct for 2009
CSRS for Congressional Employees	41.3%	35.7%
CSRS Congressional Employees-Offset	35.9%	30.7%
FERS Congressional Employees	19.6%	17.5%

Recommendation: We recommend that OFM develop and implement a sufficient and effective quality review of financial statements and notes that includes an analytical procedure for reviewing financial statements and notes.

Status of Prior Year Recommendation: Limited Progress (FY 2008 Finding Number 2.2.F)

Management Response: *We concur and will develop additional review procedures, including the Director, OFM or Deputy Director, OFM personally reviewing all versions of the financial statements provided going forward.*

21. Miscalculation of Imputed Pension Costs

OFM did not correctly calculate the imputed financing benefits expense for FERS and the Civilian Service Retirement System (CSRS). It used an incorrect salary base to compute the imputed expense and overstated the amount by $7,458,229.

Recommendation: We recommend that OFM strengthen quality control assurance over financial reporting to ensure that errors and omissions are detected in a timely manner.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 2.2.G)

Management Response: N/A

22. Construction In Progress – GL Account 1720 and Advances to Others – GL Account 1410

USCP did not obtain sufficient documentation from its contractors to support the amount liquidated from "Advances to Others" to "Construction In Progress" (CIP). It receives only summary reports from contractors stating the amount the contractor claims to have spent on behalf of USCP for the current month. USCP did not obtain any supporting documentation to verify amounts reported by contractors, and it did not verify the accuracy of project completion percentages claimed by contractors.

Recommendation: We recommend that OFM strengthen quality control assurance over financial reporting to ensure that errors and omissions are detected in a timely manner.

Status of Prior-Year Recommendation: Not Started (FY 2008 Finding Number 2.2.H)

Management Response: *We believe our Advances to Others and CIP accounts reflect the correct balances as of 9/30/10. During FY11 we will be working with consultants from an accounting firm to verify that our 9/30/10 balances are correct and supported. In addition we will be working with our Federal partners and appropriate bureaus/offices to derive reports and a methodology to link monthly financial data to project management data so that the bureaus/offices can perform a "receiving report" like approval of the monthly financial reports.*

Auditor's Evaluation of Management Response: We noted this finding in the FY 2008 examination, and USCP management concurred with the finding and recommendation at that time. Regardless of the methodology USCP used to account for these transactions, OFM has not provided adequate support to substantiate the existence, completeness, or accuracy of balances for FY 2010 and FY 2009.

23. Presentation of Cancelled Funds

OFM did not correctly present cancelled authority from FY 2003 funds on the SBR. OMB and Treasury guidance indicates that expired balances that cancel must be reported as cancelled on the yearend SBR.

Recommendation: We recommend that CAO develop a more rigorous quality assurance process.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 2.2.I)

Management Response: N/A

24. Coordination With Office of General Counsel

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 preparing financial statements in conformity with generally accepted accounting principles. Coordination between the Office of the General Counsel (OGC) and OFM will allow OFM to consider the need for appropriate financial statement disclosure.

Recommendation: We recommend that CAO develop and implement policies and procedures to facilitate the flow of information from OGC to OFM.

Status of Prior-Year Recommendation: Limited Progress (FY 2008 Finding Number 2.3)

Management Response: *USCP developed a draft policy that it submitted to the Executive Team on May 26, 2011, for approval as interim guidance.*

25. Fixed Asset Additions

OFM was required to make numerous property account adjustments to [redacted] to correct prior-year errors.

Recommendation: We recommend that CAO develop procedures to ensure that [redacted] transactions classified as FA are in fact new additions and not corrections of previously existing assets and ensure that FD transactions are actual disposals and not corrections.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 2.6)

Management Response: N/A

26. Insufficient Reconciliation of [redacted] and [redacted]

We tested USCP property records to ensure that OFM was conducting quarterly reconciliations between [redacted] and [redacted] We identified the following:

- June 30, 2009, Testing: 5 of 8 discrepancies identified were not resolved in a timely manner. Property Asset Management Division (PAMD) did not make adjustments in [redacted] until August 18, 2009, over one month after the reconciliation was performed.

- June 30, 2010, Testing: OFM notified PAMD by email of four adjustments on September 30, 2010, but did not make appropriate adjustments in [redacted] until November 16, 2010.

Also, OFM did not provide the 4th quarter FY 2010 reconciliation to PAMD until February 11, 2011.

Recommendation: We recommend OFM and PAMD conduct a more through and precise reconciliation of [redacted] and [redacted] especially regarding asset disposals. We also recommend that USCP develop policies and procedures for when the reconciliation of [redacted] and [redacted] should be completed after each quarter, when the reconciliation should be approved, and when adjustments should be made to ensure timeliness.

Status of Prior-Year Recommendation: Limited Progress (FY 2008 Finding Number 2.7)

Management Response: *We concur and will take steps to provide the reconciliation to Property Asset Management Division in a more timely manner. A new Status of Reconciliations Report will be instituted and provided/monitored by the CFO monthly and will be shared with the applicable bureaus/offices.*

__**New Financial Management Conditions from FY 2010 and FY 2009 Examination Procedures**__

27. Misstatement of Imputed Costs

USCP did not have adequate controls in place to ensure the accurate reporting of imputed costs. The following control weaknesses and resultant misstatements were noted:

- We reviewed the lease agreement between the Government Printing Office (GPO) and Architect of the Capitol (AOC) on behalf of USCP for space occupied at the GPO building. We noted that USCP did not reimburse AOC or report an imputed cost for the amount disbursed to GPO on behalf of USCP in the amount of $452,760 annually.

- We reviewed OFM's calculation of imputed cost for use of the Practical Applications Complex (PAC). We noted that the September 2008, FY 2008, amount was used in calculating the FY 2009 imputed cost. GL Account 5780, Imputed Financing Sources, was under stated by $141,335, and GL Account 6730, Imputed Costs, was overstated by $141,335. While the net effect of this error is zero on the financial statements, internal controls over financial statement preparation related to imputed costs are insufficient.

- We reviewed imputed costs. OFM did not record imputed costs for space occupied at a GPO building located on 732 North Capital Street NW, Washington, DC 20401, and the Capitol complex, including the House/Senate Office building, Capitol building, VMD location (67 K Street), and K-9 location (Blue Plains).

- We tested financial statements and notes as of June 30, 2009. USCP recorded $4,935,840 of imputed costs for the Fairchild and Practical Application Buildings, but did not record imputed costs for other buildings and grounds occupied by USCP.

- OFM did not review costs and data provided by other agencies to verify that imputed costs were complete and accurate.

- OFM did not record imputed costs related to its use of the Federal Law Enforcement Training Center's (FLETC) facilities for FYs 2010 and 2009, which were $5,417,331 and $3,152,160, respectively. FLETC did not notify USCP until March 2011 that it had incurred imputed costs for its use of FLETC's facilities.

Recommendation: We recommend that OFM review procedures for recording imputed costs and strengthen the quality review of financial statements to ensure that line items are prepared accurately and completely.

Status of Recommendation: Not Started – New Condition

Management Response: *We generally agree. OFM can validate mathematical calculations on documents provided. However, OFM does not have the authority or the knowledge necessary to audit another agency's data to determine its completeness or accuracy. We have already taken steps and have included all known imputed costs in our financial statements for 2009 and 2010 and will perform a review of all imputed cost data submitted by our Federal partners (except OPM which is solely based on cost factors).*

Auditor's Evaluation of Management Response: Even though OFM generally agrees with the finding, it is important to note that OFM is responsible for fair presentation of financial statements and, accordingly, is responsible for completeness and accuracy of this information.

28. Compensatory Time Accrual

USCP did not record accruals for compensatory time earned by employees in lieu of overtime before FY 2009. It did not create the methodology for this accrual until FY 2010. Additionally, when OFM initially prepared the accrual, it was incorrectly calculated. OFM multiplied the balance of an employee's compensatory time by 1.5 times the employee's base pay rate. When the compensatory time was earned in lieu of overtime, however, OHR accrued 1.5 hours of leave for every hour of overtime worked. As a result, when OFM multiplied the compensatory time balance by 1.5 times an employee's base rate, it resulted in overstating the balance.

The original accrual spreadsheet showed an accrual amount of $2,708,616.52. The correct amount is $1,839,206.60 as of September 30, 2010. This error was corrected in the financial statements presented in this report.

Recommendation: We recommend that OHR and OFM track balances for compensatory time earned in lieu of overtime during a fiscal year, and post an entry at yearend for compensatory balances outstanding. We also recommend that OFM adjust its methodology to only multiply the compensatory balance by the normal hourly rate of each employee. This will ensure that the accrual is calculated correctly.

Status of Recommendation: Not Started – New Condition

Management Response: *We concur and have corrected the statements for 2009 and 2010 and the recording of compensatory time accrual will be an annual audit task going forward.*

29. Accounts Payable Accrual Methodology

During our review of FY 2010 and 2009 accounts payable (AP) accrual methodology and corresponding supporting documentation, we determined that the accrual methodology was not reasonable and included accrual amounts for unliquidated balances on projects with performance periods that had expired prior to FY 2009.

After OFM revised FYs 2010 and 2009 AP accrual procedures, we further noted that OFM did not consistently follow revised AP accrual procedures, and the revised FY 2009 AP was overstated by $866,700.

Recommendation: We recommend that OFM review its AP accrual methodology and produce reasonable and accurate accounts payable balances.

Status of Recommendation: Not Started – New Condition

Management Response: *We concur and have already begun researching accounts payable methodologies used by other agencies to determine what will be best for USCP's 2011 reporting.*

30. Misstated Categories in the Statement of Net Costs

OFM applied incorrect cost allocation percentages for the following categories: Mission Assurance Bureau, Office of Professional Responsibility, Office of the Chief Administrative Officer, and Contingency when allocating Gross Costs by strategic goals on the Statement of Net Costs.

Recommendation: We recommend that OFM improve its review process for financial statements to ensure that they are prepared in accordance with OMB Circular A-136, Financial Reporting Requirements.

Status of Recommendation: Not Started – New Condition

Management Response: *We concur and will develop additional review procedures, including the Director, OFM or Deputy Director, OFM personally reviewing all versions of the financial statements provided going forward.*

31. Differences Noted During Reconciliation of Budgetary and Proprietary Accounts

During Budgetary vs. Proprietary relationship testing, we reviewed the tie-point project provided by OFM and noted the following errors:

- A $1,210,480.40 difference for Net Position Analysis - Unexpended Appropriations as of June 30, 2009.
- A $1,096,421.28 difference for Net Position Analysis - Unexpended Appropriations as of September 30, 2009.
- A $23,000 difference for Expended Authority - Expended Appropriation as of September 30, 2009.
- A $1,200,008.68 difference for Net Position Analysis Unexpended Appropriations as of September 30, 2010.

OFM provided a spreadsheet of amounts comprising the difference, but variances were not sufficiently explained.

Recommendation: We recommend that OFM conduct a secondary review of explanations for tie-point variances to ensure their validity. We also recommend that OFM thoroughly investigate variances and initiate corrective action when errors are identified.

Status of Recommendation: Not Started – New Condition

Management Response: *We concur and have already made the correction that will resolve the auditors' findings.*

Auditor's Evaluation of Management Response: While OFM concurred with this finding, we have not been provided with documentation to support that a correction was made to resolve the finding.

32. Financial Statement Checklist

OFM made the following errors in preparing the financial statement checklist for June 30 and September 30, 2010:

- OFM used guidance from OMB Bulletin 01-09 to create the financial statement checklist. Bulletin 01-09 was superseded by OMB A136 (published on June 10, 2009, and effective on June 30, 2009), and thus guidance included in OFM's checklist was out of date.

- As a result of OFM's failure to use current guidance, its checklist did not include an analysis to determine the necessity of a disclosure for "Note 34 Explanation of Differences Between the SBR and Budget of the US government."

Recommendation: We recommend that OFM improve current financial reporting procedures to include updating the financial statement review checklist to reflect updates in applicable guidance.

Status of Recommendation: Not Started – New Condition

Management Response: *We concur and will update our checklist.*

33. Statement of Net Costs Not Prepared in Accordance with the USSGL Crosswalk

OFM did not prepare the Statement of Net Costs in accordance with the United States Standard General Ledger USSGL Crosswalk. During our review of financial statement line items we noted that Total Gross Costs were overstated by $223,399.80, and the Earned Revenues line item was understated by the same amount. This is an immaterial misstatement and will be added to the Summary of Unadjusted Differences. Net Costs of Operations was, however, presented correctly, because the two misstated line items are netted in calculation of this line item.

Recommendation: We recommend that OFM use the crosswalk to prepare line items for which we noted exceptions.

Status of Recommendation: Not Started – New Condition

Management Response: *We concur and will develop additional review procedures, including the Director, OFM or Deputy Director, OFM personally reviewing all versions of the financial statements provided going forward.*

34. Unnatural Balances

During our review of September 30, 2009, trial balance by fund, we noted an abnormal account balance in 9 budgetary account balances and 15 proprietary account balances.

During our review of September 30, 2010, trial balance by funds, we noted abnormal account balances in 8 budgetary account balances and 15 proprietary account balances.

Recommendation: We recommend that OFM resolve issues that cause unnatural balances at fiscal yearend.

Status of Recommendation: Not Started – New Condition

Management Response: *We generally agree with the finding. We will implement a process that evaluates general ledger account balances to determine if they are correctly debits or credits, and when necessary, will correct unnatural balances.*

35. Year-End Adjustments Not Carried Forward

During substantive testing procedures, we noted that a FY 2008 adjustment of $684,755.63 to correct the advance balance for Navair Project SSB20080002 was not carried forward in the beginning balance of GL account 1410, Advances to Others, and 1720, Construction in Process.

Recommendation: We recommend USCP properly record the FY 2008 yearend adjustment and carry the balances forward in FY 2009, Fiscal Month 00, beginning balances.

Status of Recommendation: Not Started – New Condition

Management Response: *OFM acknowledges the error and made the correction on the year-end statements.*

36. Unobligated Balance Brought Forward, October 1

During June 30, 2009, testing of Unobligated Balance Brought Forward, October 1, we noted a difference of $22,715 between line item Unobligated Balance Brought Forward, October 1 (beginning balance) on FY 2009 SBR and the total of Unobligated Balance Exempt from Apportionment and Unobligated Balance Not Available on FY 2008 SBR.

Further investigation of the SBR crosswalk and Treasury guidance concluded that SGL Account 4251 should be included as a budgetary resource if the receivable is from a federal source. Review of [redacted] detail of GL 4251 identified the transactions as receivables under reimbursable agreements from LOC, a federal source. The FY 2008 ending trial balance for Account 4251 was $22,715 and should have been included in the 2008 SBR as described above. The amount was still recorded in the accounting system as of June 30 and was correctly included on the June 30 Statement of Budgetary Resources.

In addition, during September 30, 2009 testing, we noted that OFM incorrectly excluded GL Account 4251 from the line item Unobligated Balances, October 1, on the SBR as of September 30, 2009, and thus, the FY 2009 Unobligated Balance Brought Forward, October 1, agreed to the total of Unobligated Balance Exempt from Apportionment and Unobligated Balance Not Available on FY 2008 SBR. However, as stated above, the 2008 SBR was understated by the $22,715.

Recommendation: We recommend that OFM improve financial reporting procedures to strengthen controls over financial reporting.

Status of Recommendation: Not Started – New Condition

Management Response: *We concur. It should be noted that we corrected it prior to the September 30, 2009, statements and it has been correct ever since then.*

Auditor's Evaluation of Management Response: Although USCP concurred with this finding, the FY 2009 balance for the relevant line item was not corrected on the FY 2009 and FY 2010 financial statements provided by USCP on March 28, 2011.

37. Offsetting Receipts

During our testing of offsetting receipts and analysis of the June 30, 2009, SBR, we noted that the line item Distributed Offsetting Receipts was incorrectly reported as $13,739.

Recommendation: We recommend that OFM improve financial reporting procedures to strengthen controls over financial reporting.

Status of Recommendation: Not Started – New Condition

Management Response: *We concur. It should be noted that we corrected it prior to the September 30, 2009, statements and it has been correct ever since then.*

38. Review of User Logging for [redacted] Access

USCP did not have adequate controls to ensure that supervisors routinely reviewed user activity logs for incompatible actions.

Recommendation: We recommend that USCP develop and implement a methodology to ensure that user activity is routinely reviewed through logs generated by the [redacted] application.

Status of Recommendation: Not Started – New Condition

Management Response: *We generally agree with the finding. We will investigate available [redacted] queries and reports in order to determine a tool for management to review user activity. We will then designate appropriate personnel to perform such reviews and develop a schedule for review.*

39. Lack of Segregation of Duties

USCP did not have adequate controls for all financial applications to ensure that individuals do not have complete control over incompatible functions either within or across the financial applications. Specifically, we noted the following:

- Four accounts, including one generic account, are granted system administrator privileges with complete access within [redacted]
- Four accounts are granted system administrator privileges with complete access within [redacted]
- A segregation-of -duties matrix has not been developed to identify incompatible functions that cannot be assigned within [redacted]

- Individuals are granted incompatible functions with [redacted] applications, including the ability to create and approve journal vouchers.

- Individuals with access within [redacted] have more than one account to provide the user with access to perform a backup role or perform tasks in the capacity for another individual. These additional accounts could potentially provide the user with the ability to perform incompatible functions.

Recommendation: We recommend that USCP develop, document, and implement an OFM segregation-of-duties matrix to identify incompatible functions within [redacted] We also recommend that USCP review all user accounts and ensure that users are assigned appropriate roles within and across financial applications to prevent control over incompatible functions.

Status of Recommendation: Not Started – New Condition

Management Response: *We concur with the finding and will perform adjustments to user roles where necessary, with the following exceptions which correspond to numbers 1 and 2 in "Condition" column: 1. The four accounts referred to are actually roles that were preset in [redacted] and are attached to three principals (individuals) and one batch job for which they are necessary. The three individuals who have these roles are all system administrators and must have identical setups in order to back one another up or some operations could be halted if only one individual had those roles and that individual was out. 2. Separate user IDs were necessary: For ease of use for the individual so they would not have unnecessary tasks in their inbox when they were not acting as a backup; so that their backup duties do not have to be removed from their primary ID when the user no longer is a backup (instead their backup IDs are made inactivate.); because USCP has a very large amount of security organizations in [redacted] and because past experience demonstrates that when we have removed tasks from a user ID, it has interfered with the remaining approval process.*

Auditor's Evaluation of Management Response: Management's response does not fully address risks posed by the conditional statement specific to access privileges granted to system administrators within [redacted] and USCP's practice to create multiple accounts for individuals to perform backup duties. We continue to recommend that management revaluate the associated role-based security process to eliminate segregation-of-duties risks within [redacted]

Access rights granted to the system administrator group provides complete access to the [redacted] application, giving a system administrator the ability to perform system maintenance functions, perform security functions, and complete business transactions. The current access model for system administrators violates segregation-of-duties principles; system administrators should not have access to security functions, and all individuals that support the system should not have access to perform any business transactions.

Additionally, when a user is granted multiple user accounts, with the primary account used for the individual's daily responsibilities and secondary accounts used to backup or support other individuals in the organization, the risk increases that these accounts could be used to circumvent or violate segregation-of-duties principles that have been established using a role-based security model. This risk is further increased when the organization has not performed an analysis of access permissions and has not developed and implemented a segregation-of-duties matrix, as noted in the condition.

An effective security model provides an automated mechanism through access permissions within the system to reduce the risk that an individual can complete incorrect, unauthorized, or fraudulent transactions while allowing each end user to complete daily responsibilities unencumbered. It is unreasonable to employ a security model that purposely circumvents those automated mechanisms for ease of use.

40. [redacted] Account Management

Controls are not effective to ensure that account management controls are in place and effective for [redacted] Specifically, we noted the following:

- Two employees retained active access to the [redacted] application after employment termination.
- The form used to request and approve access to [redacted] is generically designed and does not provide the requestor the ability to request the specific role(s) from a predefined list that agrees to roles assigned within the application. Additionally, requestors can request access to 'mimic' another user. Mimicking a user's role(s) to provide another user access could potentially lead to inadvertently granting a user additional access to the application that is not required to perform daily job responsibilities.

Recommendation: We recommend that USCP implement account management controls within [redacted] to remove access of terminated individuals in a timely manner. We also recommend that USCP update the mechanism (user request form) to request and approve access to [redacted] to provide requestors with the ability to select specific access roles that agree to roles assigned within [redacted]

Status of Recommendation: Not Started – New Condition

Management Response: *We concur with the finding that prompt notice is not given when users terminate USCP employment. Management will determine a process by which such notification will be provided. We do not concur that the User Request form should be modified so that the requestor (Bureau Commander) should specify which roles the user should have or that new users should not "mimic" another user. With more than approximately 160 security organizations and user roles, and a lot of movement within bureaus, USCP has a much too complicated setup to expect management to have the familiarity to determine security roles. Also, when they specify to "mimic" a user's security, that is when the new user will be performing in the same exact capacity, which happens with extreme frequency at USCP. With the complexity of the USCP setup, this makes sense and prevents us from having to "re-invent the wheel" each time. Furthermore, each user request is approved by a bureau commander or office director, but is then scrutinized carefully by the security administrator to be sure that the request is appropriate and if a user is "mimicked", that the mimicry is entirely justified.*

Auditor's Evaluation of Management Response: Management's response is insufficient to mitigate risks posed by the account management issue identified. Its response fundamentally supports the conditional statement and risks associated with a deficient process to grant access to USCP's core financial application, [redacted] Business owners and USCP management with authority to approve system access to [redacted] have a fiduciary responsibility to fully understand and authorize specific permissions granted through access roles that will be provided to an end user through the role-based security model employed by USCP.

If the security configuration within [redacted] is too complicated for a business owner to fully understand, as management contends, it is not reasonable to expect the requestor to fully understand access privileges granted to one individual as a model to provide access to another individual through mimicking. Furthermore, with the current access administration model employed by USCP, anyone tasked with system oversight (business or technical) would be unable to agree permissions authorized by the approver to those granted within the system.

41. Reprogramming Tracking Log

The Budget Office did not follow OFM directives in preparing the Reprogramming Tracking Log for FY 2009. We noted during our testing that the log only showed 3 of 47 transactions. According to the budget analyst, the reprogramming log only contained reprogramming actions that crossed organizations. This is not in accordance with the Budget Modifications and Reprogramming Directive: [redacted].

Recommendation: We recommend the Budget Office follow its most recent directives. If the office deems it appropriate to make changes in its procedures, then the directive should be updated, and appropriate OFM managers should approve the changes. We further recommend that the Budget Office track all reprogramming as stated in the directive, because this helps the office to properly track transactions and determine when an approval request is necessary.

Status of Recommendation: Not Started – New Condition

Management Response: *We concur with this finding and will revise* [redacted] *accordingly.*

42. CFO Approval of Purchases

According to the USCP procurement officer, purchases greater than $25,000 require approval from the CFO documented by an internal memo signed and placed in the procurement file with the award document. This approval requirement is an unwritten procedure, and a policy requiring CFO approval does not exist.

Recommendation: We recommend that USCP develop written policies and procedures to track CFO approval of purchases greater than an established amount. Although USCP is not required to adhere to the CFO Act, it is best business practice to follow the standard of the CFO Act and monitor the financial execution of the agency budget in relation to actual expenditures.

Status of Recommendation: Not Started – New Condition

Management Response: *We generally agree with the finding. We have revised the* [redacted] *that states that delegation of procurement authority is issued to the Procurement Officer from the COP. Also since the finding the COP has issued a letter of delegation to the Procurement Officer stating the delegation of Procurement Authority for the USCP has been give to Procurement Officer. The revised policy is in the approval process. The revised policy will not require an approval at any level for review or signature by the CFO.*

Finding No. 3: Information Systems

Summary Status: Significant Deficiency
Prior Finding
Substantial Progress was made on prior year conditions

Fifteen conditions from the prior year examination (FY 2008) are carried forward and are discussed in the first section below. We identified two new conditions, discussed in the second section below, resulting in 17 conditions. Fourteen of the conditions from the prior year were closed in the current examination period leaving three conditions that make up this significant deficiency.

In prior years, the Office of Information Systems (OIS) has not placed considerable importance on the awareness of IS functions and the security posture of the organization, especially supporting financial systems. In the current period, unlike prior years, however, OIS has defined the security and support of the financial systems as a priority. This is evident based on refocused efforts by OIS to assess and remediate the high risk and highly pervasive IS controls that were deficient before the current examination period.

As such, the cumulative risk associated with these conditions was reduced from a material weakness and is being reported as a significant deficiency.

Status of Existing Conditions from FY 2008 Internal Controls Report

1. Lack of Policies and Procedures for Identifying and Protecting 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 its procedures for protecting PII stored in major information systems.

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

Status of Prior Year Recommendation: Closed (FY 2008 Finding Number 3.1)

Management Response: N/A

2. Lack of Comprehensive Security Baseline Configuration for Operating Systems

Controls are not adequate to ensure that commonly known risks are mitigated through a secure configuration of systems. The configuration checklist contains limited specific configuration settings for USCP's environment. This checklist is not comprehensive enough to ensure that all commonly known risks are identified and addressed.

Recommendation: We recommend that CAO ensure that a standard security benchmark for all systems is developed and implemented. Organizations such as the National Institute for Standards and Technology and the Center for Internet Security provide guidance on security benchmarks for federal government systems.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 3.2)

Management Response: N/A

3. Inadequate Security Awareness Training

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. Users are not, however, 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 percent) 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.

Recommendation: We recommend that CAO 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 Prior-Year Recommendation: Closed (FY 2008 Finding Number 3.3)

Management Response: N/A

4. Rules of Behavior Not Acknowledged

USCP 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. Current procedures for distributing and ensuring that major application users acknowledge system specific Rules of Behavior require that all users review the rules individually and reply to an email stating they acknowledge the requirements.

This procedure is in place for [redacted] and soon to be implemented for [redacted] USCP does not, however, 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.

Recommendation: We recommend that CAO 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 Prior-Year Recommendation: Closed (FY 2008 Finding Number 3.4)

Management Response: N/A

5. Risk Assessments Inadequate

USCP did not conduct risk assessments in accordance with industry best practices that consider a holistic view of system risks for all major systems, and controls for conducting assessments were inadequate. Specifically we found that:

- Risk assessments prepared for the wide area network (WAN) and local area network (LAN) were conducted in early FY 2007. They identified a number of possible threat sources in three categories: human, natural, and environmental. The methodology used to identify specific system vulnerabilities, however, only used 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.

- USCP has not conducted a risk assessment that covers the major application, [redacted]

- Risk assessment procedures for the new system, [redacted] produced a risk matrix spreadsheet that documented potential system risks associated with implementation. The process for identifying risks did not, however, provide documented evidence of a standardized approach to addressing risks in a manner consistent with industry best practices. Evidence of a holistic approach to risk management that extended past the system implementation phase did not exist.

Recommendation: We recommend that CAO conduct risk assessments in accordance with guidelines and recommendations for protecting federal information systems and integrate the process and documented results into a comprehensive process for certifying and accrediting major systems.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 3.5)

Management Response: N/A

6. System Security Plans Lacking

USCP has not created and approved system security plans that fully document controls protecting major systems in accordance with industry best practices. Specifically we found that:

- UCSP 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 Operational Data Store (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 USCP.

Recommendation: We recommend that CAO 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 Prior-Year Recommendation: Closed (FY 2008 Finding Number 3.6)

Management Response: N/A

7. Independent Security Assessment Not Conducted for Major Systems

USCP has not conducted an independent security assessment 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.

We found no evidence of independent security testing of all 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 this individual in the position of evaluating his own performance and does not allow for a completely independent and objective assessment.

Recommendation: We recommend that CAO ensure an independent assessment of security controls conducted as part of a comprehensive certification and accreditation process.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 3.7)

Management Response: N/A

8. Policies and Procedures for Tracking and Monitoring Corrective Actions Lacking

USCP has not developed policies and procedures to track and monitor corrective actions for known system security weaknesses. USCP has a process to document responses and corrective actions for examination recommendations. This process, however, only addresses examination 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.

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

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 3.8)

Management Response: N/A

9. FY 2007 SAS 70 Report for [redacted] Not Reviewed

USCP has not received and reviewed an FY 2007 SAS 70 report for the [redacted] system. According to the [redacted] Service Level Agreement (SLA), the Department of Interior's (DOI) NBC should provide an annual SAS 70 report that establishes NBC's compliance with control objectives and activities as examined by an independent firm.

Without a SAS 70 report or equivalent, USCP management does not have assurance that 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 SAS 70 reports would also enable USCP management to identify policies and procedures that need to be implemented to compliment controls already in place at NBC.

Recommendation: We recommend that CAO obtain and review SAS No. 70 reports or equivalents [redacted] as part of their continuous monitoring process.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 3.9)

Management Response: N/A

10. Network Accounts Not Periodically Reviewed

USCP 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 increases that these accounts could be fraudulently accessed or enabled to perform malicious acts.

Additionally, we reviewed 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 been 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 percent of all accounts).

- Of 765 inactive accounts, 435 (57 percent) have not been disabled. These accounts represent the highest risk, because they are potentially the easiest targets for attack.

- Of 765 inactive accounts, 330 (43 percent) are disabled and according to the draft policy, should be deleted. These accounts represent a moderate risk, because they are additional targets for attackers.

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

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 3.11)

Management Response: N/A

11. Information System Logs Not Adequately Monitored

USCP 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. The Senate is monitoring the USCP network externally. Active monitoring of the network internally is not, however, being performed. We also noted that log monitoring software was scheduled to be purchased in FY 2009.

Recommendation: We recommend that CAO 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 Prior-Year Recommendation: Closed (FY 2008 Finding Number 3.12)

Management Response: N/A

12. OFM Continuity of Operations Plan Insufficient

OFM's Continuity of Operations Plan (COOP) is not complete and current. At the end of the examination period, we determined through inquiry that OFM was still in the process of revising the entire OFM COOP document with a targeted completion date of December 31, 2010. An approved OFM COOP was distributed on January 7, 2011. The document was unavailable, and thus we did not evaluate it or its implementation in the fiscal year ending September 30, 2010.

Recommendation: We recommend that USCP 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 be appropriately established as part of COOP revision process.

Status of Prior-Year Recommendation: Some progress (FY 2008 Finding Number 3.13)

Management Response: *We concur with the status update. The OFM COOP was completely re-written and distributed as a final document on January 7, 2011. The OFM COOP specifies functions and procedures to be performed by OFM's emergency essential personnel to support mission critical operations in the event of an emergency, including those to be performed in anticipation of a weather related emergency based on a forecast of severe weather. All OFM employees have been issued USCP laptops and are enabled to work from their homes following activation of the OFM COOP. Employees have tried and tested their ability to access the USCP network,* [redacted] *and all applicable shared drives through the use of their laptop and a VPN connection. The release of the OFM COOP helps ensure OFM employees are well positioned to support the resumption of operations following disruption due to an emergency situation. OFM is ensuring that the OFM COOP plan is consistent with the USCP COOP plan.*

13. Contingency Plan Testing Documentation Not Developed

USCP has not developed formal documentation regarding contingency plan testing for GSS. It has conducted a limited contingency plan test, but did not develop a report, such as a lessons-learned document, formally stating results of the test. Additionally, we noted that no test plans were created.

Without test objectives and success criteria the effectiveness of the overall test cannot be accurately assessed. Furthermore, without a formal report of results or lessons learned, the contingency plan may not be adequately updated to address deficiencies in the plan.

Recommendation: We recommend that CAO implement policies and procedures to require that a test plan and objectives be developed before testing contingency plans. The test plan should include a clear scope, scenario, and logistics as well as indicate the personnel who will be involved. Additionally, we recommend that a formal report be documented upon completion of the test and include successful and non-successful steps as well as lessons learned. Furthermore, we recommend that the contingency plan be updated to reflect the discovered deficiencies.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 3.15)

Management Response: N/A

14. [redacted] User Roles Not Appropriately Assigned

USCP has not ensured that all [redacted] user roles are appropriately assigned. Through sample testing we noted that 2 out of 45 users sampled were not included in the USCP User Role Review.

Without ensuring that users have the appropriate roles, users may be granted access to perform actions outside their job descriptions. The risk also increases that there may also be a breakdown in adequate segregation of duties between [redacted] users.

Recommendation: We recommend that CAO perform account reviews for all [redacted] users and ensure that all users have appropriate access and assigned roles.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 3.16)

Management Response: N/A

15. All [redacted] User Accounts Not Periodically Reviewed

USCP has not ensured that all [redacted] user accounts are periodically reviewed and addressed to verify that all system account statuses are appropriate. Through sample testing we noted that 2 of 45 [redacted] users sampled were not verified as having an appropriate 'Active' account status.

The risk of fraudulently accessing an account that is not assigned to a current [redacted] user escalates. There is a possibility that malicious acts could be performed using the account.

Recommendation: We recommend that that CAO perform account reviews and ensure that all active accounts are assigned to an active [redacted] user or are otherwise disabled.

Status of Prior-Year Recommendation: Closed (FY 2008 Finding Number 3.17)

Management Response: N/A

New IS Conditions from FY 2010 and FY 2009 Examination Procedures

16. Oversight of Outsourced Systems

Controls were not effective to ensure that USCP performs adequate oversight of contractor and outsourced systems. Specifically, we noted the following:

- The review of the SAS 70 report for [redacted] hosted by NBC was not adequately performed. The front cover of the report was signed, but documentation of the analysis of findings identified in the report was not provided. Additionally, documentation of testing of the client control considerations was not provided.

- With the exception of the Authority to Operate (ATO) notifications from LOC for [redacted] and [redacted] USCP did not provide any documentation of analysis to identify any potential risks for the services provided by LOC.

Recommendation: We recommend that USCP ensure adequate oversight of contractor and outsourced systems is performed. We recommend that USCP implement and document security controls specific to the risks associated with [redacted] and [redacted] in the USCP environment regardless of service provider. These controls should be tested on a periodic basis.

Status of Recommendation: Not Started – New Condition

Management Response: *We generally agree with the finding. The Risk Assessment to migrate [redacted] from NBC to LOC was incorporated into the LOC Implementation Plan. The Risk Assessment was performed after the Congressional mandated decision to move [redacted] and [redacted] from NBC to LOC. Risks were identified, categorized, analyzed, and mitigated prior to migration to LOC, but after the decision. Going forward, USCP will perform Risk Management Reviews of both [redacted] and [redacted] to identify and document the inherent risks of each system along with appropriate mitigating controls. Additional tests of controls will be identified and added to the [redacted] Review Schedule and the [redacted] Review Schedule, as appropriate.*

17. Baseline Configuration

Security baseline configurations developed in FY 2010 have not been fully implemented for all USCP systems. Specifically, we noted the following:

- Windows XP Professional security baselines were implemented to a test subset of workstations.

- Windows Server security baselines were implemented to all but three Windows servers.

- Security baselines have not been established for network appliances (firewall, routers, and switches).

Recommendation: We recommend that USCP continue to implement the security baselines developed in FY 2010 to the full population of Windows servers and workstations. We also recommend that USCP develop and implement security baselines for all network appliances and document any deviations from those baselines.

Status of Recommendation: Not Started – New Condition

Management Response: *We concur with this finding and will continue to implement security baselines throughout the USCP enterprise. To date we have completed a majority of the effort with an expected full completion date of 08/15/2011. *** NOTE *** All servers have had security baselines established and are in compliance.*

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

United States Capitol Police Board

We have audited the Balance Sheets of the United States Capitol Police (USCP) as of September 30, 2010, and 2009, and the related statements of Net Cost, Changes in Net Position, and Budgetary Resources for the years then ended. We have issued our report thereon dated June 20, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

USCP management is responsible for complying with laws and regulations applicable to the entity. As part of obtaining reasonable assurance about whether USCP's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the following two paragraphs.

Fair Labor Standard Act (FLSA), Section 207(o), states that employees who "work in a public safety activity...[or] emergency response activity...may not accrue more than 480 hours of compensatory time for overtime hours worked." Section 207(o) further states that an employee who has accrued 480 hours of compensatory time off will be paid under FLSA for additional overtime hours of work. Compensatory time balances for 7 employees exceeded 480 hours in Fiscal Year (FY) 2009, and 10 employees exceeded 480 hours in FY 2010. These employees exceeded 480 hours at the end of multiple pay periods for a total of 68 instances during FY 2009 and 107 instances during FY 2010.

The Capitol Police Board Leave Regulations state that use of compensatory time off is subject to the same conditions provided for the use of annual leave. The Leave Regulations also provide that when it is impossible to grant leave to members and civilian employees due to unusual emergencies, the Chief of Police or his/her designee has the authority to temporarily waive the above restriction on accrued annual leave. We noted that waivers signed by the Chief of Police were not obtained for compensatory time earned in lieu of overtime accrued in excess of 240 hours at the end of FYs 2010 and 2009. Waivers were not completed in 48 instances at the end of FY 2009 and 42 instances at the end of FY 2010.

USCP management's responses to the findings identified in our report are attached to this report. We did not audit USCP management's responses and, accordingly, we express no opinion on them.

[redacted]

COTTON & COMPANY LLP

Alan Rosenthal, CPA, CFE
Partner

June 20, 2011
Alexandria, Virginia

UNITED STATES CAPITOL POLICE
COMMENTS ON DRAFT
INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS

Compensatory Time Balances in Excess of 480 Hours

Management's Response: *We concur with the auditors findings and have taken corrective action to track compensatory time balances and report to appropriate management personnel when balances near the 480 hour limit. However, a distinction should be made between Comp 1.5 and Comp 1.0 The FLSA standard regarding accrual of 480 hours of compensatory time applies to Comp 1.5 not Comp 1.0. OHR has modified the* [redacted] *Time and Attendance application to automatically convert an employee with 480 of Comp 1.5 to an annual O/T election of cash. The application has also been modified to disable the employee's ability to change this election so that Comp 1.5 does not exceed the threshold of 480 hours. As a final measure, a report has been written that automatically is distributed to payroll personnel regarding the names of employees who carry Comp 1.5 balances between 240 and 480 hours to catch any possible system errors or overrides.*

Auditors' Evaluation of Management's Response: We note that the finding is only related to compensatory time earned in lieu of overtime.

Compensatory Time Waivers

Management's Response: *For clarification, the Condition appears to misstate the applicable regulatory requirement. Comp time accrual limitations apply on a leave year basis not a fiscal year. Therefore, for purposes of this finding, the USCP understands that the finding applies to leave year 2010 and 2009. Consequently, the finding should state that Comp time may not exceed 240 hours at the beginning of the first full biweekly pay period occurring in leave year 2010 and 2009, not January 4, 2010 and January 4, 2009. We concur with the auditors findings and have taken corrective action to track compensatory time balances throughout the year and ensure that waivers are completed. OHR has created a comprehensive pay directive that covers how compensatory time balances are to be handled and ensure that CPB Leave Regulations are followed. Reports have been created that enable OHR and Management officials to monitor all employees with greater than 240 hours of combined compensatory time balances. The automatic distribution of these reports to Division commanders will be completed in pay period 10 2011. Additionally, it is important to note that the Chief of Police granted a general waiver for Comp time balances on March 25, 2011.*

Auditors' Evaluation of Management's Response: We noted that USCP management concurred with the finding. We revised the wording to clarify the condition. Based on review of policies and procedures and inquiry of USCP, we note that the requirement for compensatory time waivers is on a calendar year basis.