KPMG LLP
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Independent Auditors' Report on Internal Control Over Financial Reporting

To the Director
of the Court Services and Offender Supervision Agency:

We have audited the balance sheets of CSOSA as of September 30, 2007 and 2006, and the related statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated May 7, 2009.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of CSOSA is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2007 audit, we considered CSOSA's internal control over financial reporting by obtaining an understanding of CSOSA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. To achieve this purpose, we did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of CSOSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CSOSA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects CSOSA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of CSOSA's financial statements that is more than inconsequential will not be prevented or detected by CSOSA's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by CSOSA's internal control.

In our fiscal year 2007 audit, we consider the deficiencies, described in Exhibits I and II, to be significant deficiencies in internal control over financial reporting. However, of the significant deficiencies described in Exhibits I and II, we believe that the significant deficiencies presented in Exhibit I are material weaknesses. Exhibit III presents the status of prior year significant deficiencies.

INTERNAL CONTROL OVER PERFORMANCE MEASURES

As required by OMB Bulletin No. 07-04 in our fiscal year 2007 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis section, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin No. 07-04. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon. In our fiscal year 2007 audit, we noted no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

CSOSA's responses to the findings identified in our audit are presented in the Exhibits I and II. We did not audit CSOSA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of CSOSA's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

May 7, 2009

MATERIAL WEAKNESSES

1. IMPROVEMENTS ARE NEEDED IN THE FINANCIAL REPORTING PROCESS

Compilation and Reporting

CSOSA consists of two major component programs, Community Supervision Program (CSP) and Pre-trial Services (PSA), with two separate accounting/finance departments. These departments record and track daily operations independently and prepare two separate sets of financial statements. The financial statements are then aggregated by CSP into CSOSA agency financial statements for reporting and disclosure purposes.

CSOSA's current processes used to prepare, analyze and provide management approval and oversight to financial reporting and financial statement development/maintenance need improvement in order to effectively and efficiently prepare and implement changes to its financial statements.

Specifically:

- CSOSA was initially unable to provide sufficient documentation to support certain balances of the draft financial statements presented to KPMG;
- CSOSA does not have tailored agency-level policies and procedures for monitoring reviews related to financial statement preparation;
- Certain adjusting journal entries recorded by DOJ were not initially explained by CSOSA personnel or were found to be incorrect or incomplete at June 30, 2007;
- Adjusting journal entries for fourth quarter were not provided to KPMG by CSOSA in a timely manner after submission of the financial statements;
- Improvements needed in communication between the two components of CSOSA, PSA and CSP, regarding preparation of the financial statements;
- Certain information provided by PSA did not flow through to the combined Agency level financial statements accurately due to incomplete data provided for conversion to the new Oracle system. This data consisted mainly of future accrual amounts and property balances.
- Allocation between Federal and Public transactions in the general ledger needs improvement, to ensure accuracy of the financial statement allocations;
- Edit check procedures over financial statements and relationships between statements need to be documented;
- Crosswalk from trial balance to financial statements needs to be documented.

RELATED NONCOMPLIANCE

Limited agency-level policies and procedures for monitoring reviews related to financial reporting and lack of documented procedures for edit checks and crosswalks contributed to noncompliance with the Federal accounting standards element of the *Federal Financial Management Improvement Act of 1996* (FFMIA).

RECOMMENDATIONS

KPMG recommends CSOSA:

1. Consider obtaining additional financial reporting staff or contracting with NBC for financial statement generation to allow for appropriate separation of duties and depth of financial personnel;
2. Conduct an assessment of the current financial reporting process, document the process and implement appropriate internal controls in order to reduce complex and manual procedures where feasible.
3. Build a closer working relationship between its two major component programs to ensure accurate information is presented in the financial statements for the areas of financial statement consolidation, preparation, disclosure, and presentation. Consider forming an agency-level oversight committee, comprised of members of each component, to review the accuracy and completeness of the financial statements and footnote disclosures at the combined agency level before issuance, and to track the progress towards meeting OMB's reporting deadlines. Also, a formalized policy should be implemented regarding journal vouchers, including required supporting documentation and supervisory approval of every adjusting entry made as part of the financial reporting process. A higher degree of coordination between the groups and additional supervisory review would reduce the substantial effort that is currently needed to reconcile the differences identified.

MANAGEMENT RESPONSE

DOJ/JMD submitted CSOSA's FACTSII for the first three quarters of FY 2007, without providing CSOSA opportunity for review and corrections. CSOSA currently performs our own FACTSII reporting.

In FY 2009, CSOSA is developing an Agency-wide Financial Statement policy and related operational procedures which will govern the preparation, coordination and presentation of quarterly and annual financial statements.

CSOSA is working with NBC to enhance Oracle GL reporting to distinguish Federal/Public transactions.

Budgetary Resources

During our fiscal year (FY) 2007 internal controls and substantive testing procedures over the budget execution process area we noted the following:

- Initial reconciliation of the CSOSA's FY 2007 Statement of Budgetary Resources (SBR) to FY 2007 amounts reported in the FY 2009, President's Budget of the United States Government included certain inaccurate and unsupported amounts.
- Initial reconciliation of the CSOSA's FY 2007 SBR to SF-133 FACTSII information did not include detailed explanation of differences.

- Differences between the Statement of Budgetary Resources and the SF-133 in FY 2007 by caption were:
  - Total Budgetary Resources - $5,684,661
  - Total Status of Budgetary Resources - $5,684,661
  - Total Obligated Balance, end of period - $5,489,026

If documentation is not readily available and appropriate documentation is not maintained there is a risk of unsupported balances in the financial statements.

RELATED NONCOMPLIANCE

Lack of adequate controls over reconciliations related to Budgetary Resources contributed to noncompliance with the Federal accounting standards element of FFMIA.

RECOMMENDATION

KPMG recommends CSOSA:

1. Implement policies and procedures to ensure that the amounts reported in FACTS II are consistent with the amounts in the general ledger and reported in the SBR.

2. Implement policies to ensure timely, accurate and complete reconciliations related to the Statement of Budgetary Resources.

MANAGEMENT RESPONSE

Differences between the FY 2007 Statement of Budgetary Resources and FY 2007 FACTS II / SF-133 are primarily caused by two factors:

A. CSOSA manual adjustments to obligation balances reported in the FY 2005/2006 financial statements were not processed in the GL or reported in FACTS II.

B. DOJ/JMD submitted FACTS II data for CSOSA for the first three quarters of FY 2007. CSOSA did not make manual adjusting entries in the FMIS2 GL based on adjustments made by DOJ/JMD to the SF-133/FACTS II because we were not provided supporting documentation and we could not substantiate these adjustments. CSOSA asked DOJ/JMD that these manual adjustments be made, after our review, in FMIS so that our GL would reflect what was submitted for the SF-133. DOJ/JMD would not make these manual adjustments into FMIS2. CSOSA made repeated requests to DOJ/JMD that they provide draft copies of the SF-133 prior to submitting FACTS II data. This did not take place, preventing CSOSA from reviewing and correcting SF-133 and FACTS II data. Effective Fourth Quarter FY 2007, CSOSA recorded our own information in FACTS II based on GL information reported from our new financial system, Oracle Federal Financials.

2. IMPROVEMENTS ARE NEEDED IN FINANCIAL ACCOUNTING CONTROL ACTIVITIES

General Ledger Process Activity

CSOSA's processes to account for certain general ledger activity needs improvement. As described below, certain accruals, capitalization accounts, and general ledger errors existed, and required correction in the financial statements and related supporting documentation.

- Certain differences existed on the September 30, 2007 cash reconciliation which were not initially explained or support was not initially provided;
- Several differences on the SBR and SF133 reconciliation initially existed;
- PP&E was initially brought forward incorrectly from 2006 resulting in $2.3M of differences;
- Accrued unfunded leave liability adjustment of $122K, was not initially accrued for the 4th quarter;
- CSP Imputed Costs were not initially recorded for the 1st and 2nd quarters of FY 2007 resulting in an understatement of $3M;
- Accrued Unfunded FECA liability was initially recorded as funded resulting in an understatement of $35K.

RECOMMENDATION

KPMG recommends CSOSA:

1. Leverage NBC for additional financial reporting responsibilities or consider obtaining additional financial reporting resources to allow for the timeliness of activities and depth of financial personnel;
2. Perform and document monthly or quarterly reconciliations and review and approve at an appropriate level of management;
3. Develop and implement procedures to ensure that all transactions are properly supported with adequate documentation, including requiring on-top journal entries.

MANAGEMENT RESPONSE

In FY 2009, CSOSA is developing an Agency-wide Financial Statement policy and related operational procedures which will govern the preparation, coordination and presentation of quarterly and annual financial statements.

Undelivered Orders / Accounts Payable

Statement of Federal Financial Accounting Standards (SFFAS) No. 5, Accounting for Liabilities of the Federal Government and Statement of Federal Financial Accounting Standards No. 1: Accounting for Selected Assets and Liabilities, describe the requirement to properly account for certain budgetary and proprietary accounts.

Improvements are needed in internal controls related to the status and valuation of Accounts Payable and Undelivered Orders.

Specifically, we noted obligations that contained: a) status or dollar errors (were partially or fully misclassified as either undelivered or accounts payable), b) obligations that were stale (remained open although all services had been fully performed and billed), and c) obligations that were duplicates (multiple obligations were entered into the general ledger for the same procurement action).

CSOSA used the Department of Justice's FMIS2 financial system for the first three quarters of FY 2007. See below for the results of our testwork on obligations reported in FMIS2 as of June 30, 2007.

Obligation Status Type	**No. of Status/Dollar Errors in Sample**	**Total No. of obligations in sample**	**Absolute Dollar Value of Sample Status/Dollar Errors**
CSP Undelivered Orders	30	76	$1,444,160
PSA Undelivered Orders	15	42	$232,442
Total	45	118	$1,785,726
CSP Accounts Payable	29	53	$815,253
PSA Accounts Payable	7	35	$14,378
Total	35	88	$829,631

Beginning the fourth quarter of FY 2007, CSOSA converted FMIS2 data and functionality to the Oracle Federal Financials (OFF) systems, which is managed by the United States Department of the Interior (U.S. DOI) National Business Center (NBC). Because data migration and system limitations prevented proper accrual classifications, CSP performed a review of OFF open obligations at the end of September 30, 2007, and performed manual accruals which were recorded at a summary level by project code.

Our September 30, 2007 testwork identified a lack of adequate supporting documentation for certain CSP Undelivered Orders and Accounts Payable balances.

Of the $3.5M Accounts Payable sample selected, approximately $2.8M related to the manual accrual entries of which we noted $1.0M was supported by high level written explanation only. Of the sample tested, KPMG identified an AP overstatement by CSP of $764K, consisting of $150K for one obligation and $614K in manual accrual overstatements. Of the $13.2M of CSP Undelivered Orders sample tested, we determined a UDO overstatement by CSP of $3.7M of which $3.3M related primarily to three obligations which had an expired period of performance.

We noted no material exceptions during our testwork of PSA's Undelivered Orders and Accounts Payable balances for the period ending September 30, 2007.

In addition we performed subsequent disbursement testwork and identified exceptions which understated September 30, 2007 Accounts Payable by $702K for CSP and $414K for PSA. The $702K CSP Accounts Payable understatement includes $391K for five disbursements made to the CSOSA purchase/fleet credit card contractor for numerous transactions for which we could not substantiate detail September 30, 2007 accrual balances.

RELATED NONCOMPLIANCE

Lack of adequate controls over monitoring of obligations contributed to noncompliance with the Federal accounting standards element of FFMIA.

RECOMMENDATIONS

KPMG recommends both CSP and PSA:

1. Emphasize the importance of correctly classifying obligations as delivered and undelivered throughout the fiscal year. This communication should include explanation and training on proper authorization, recordation, and retention of undelivered and delivered order documentation. This communication should be made to appropriate staff and supervisors.

2. Implement policies and procedures regarding timely recording of goods and services received by the requesting department. This should include timely communication to the appropriate individuals in Finance to allow for the accurate recording of transactions in Oracle as the status of transactions change from undelivered orders to accounts payable.

3. Implement or revise procedures to require periodic reviews (at least quarterly) of all open obligations. This should include reviewing open obligations and the related supporting documentation to ensure obligations are correctly classified, documentation supports calculations of undelivered and delivered amounts recorded in the general ledger, and appropriate adjustments are made to de-obligate expired obligations.

4. Implement or revise supervisory review procedures to ensure detailed obligation reviews are performed throughout the fiscal year, allowing management to make corrections timely. Management should consider periodically selecting samples of obligations to verify that open obligation reviews are being performed and are working effectively by recalculating undelivered and delivered amounts based on a review of the supporting documentation. This would allow for identification of obligations where errors have not been detected and corrected by the periodic review process. When the sources or causes of the errors are identified, management should communicate the cause of the error to the appropriate individuals.

5. Implement or revise procedures to ensure that accruals are correctly and consistently applied to all obligations for which the receipt of goods or services needs to be estimated and actual amounts are adjusted for and appropriately recorded.

MANAGEMENT RESPONSE

CSOSA concurs with the finding related to CSP/PSA June 30, 2007 obligation status and classification operations and procedures while using the Department of Justice (DOJ) FMIS2 system. The DOJ/FMIS2 system did not provide effective, obligation classification operational capabilities and reporting.

CSP and PSA migrated to an approved financial Shared Services Provider (Department of Interior's National Business Center) and financial management system (Oracle Federal Financials) effective July 2007. The Oracle system provides decentralized, integrated goods and services receipt (and estimate) capabilities and improved obligation classification reporting. However, because of system conversion issues, CSP was unable to use Oracle receipt capabilities for obligations brought forward from FMIS2. For this reason, CSP performed manual accrual entries, at the project level, to correctly classify September 30, 2007 open obligations.

CSP disagrees with KPMG on their determination that as of September 30, 2007 two CSP obligations, totaling $2.7M, represented an overstatement of UDO balances due to expired periods of performances. Both of these obligations represented agreements with the General Services Administration (GSA) to perform services for a specific project that had not been implemented as of September 30, 2007. CSP asserts that the performance periods indicated on the agreements were estimates and that both CSP and GSA considered the agreements and project to be valid as of September 30, 2007. CSP also disagrees with KPMG on their determination that September 30, 2007 Accounts Payable was understated by $391,916.72 for five subsequent disbursements made by CSP to reimburse the CSOSA purchase/fleet credit card contractor. Each of these five payments is comprised by numerous FY 2007 credit card transactions which may have been correctly classified (via manual accrual adjustments) as of September 30, 2007.

CSP and PSA are currently using Oracle system capabilities, combined with formal review procedures and user training, to improve the timeliness and accuracy of obligation status information. CSP has developed detailed user documentation to perform goods and services receipt actions in Oracle. PSA conducts weekly 100% reviews of all open obligations over 180 days.

SIGNIFICANT DEFICIENCIES

3. IMPROVEMENTS NEEDED IN CONTROLS OVER PROPERTY, PLANT AND EQUIPMENT

SFFAS No. 6, Accounting for Property, Plant, and Equipment requires that property meeting certain criteria be capitalized and depreciated over its useful life.

Improvements needed in CSP controls over tracking, recording and reporting of certain capitalized Property, Plant and Equipment (PPE). PSA PPE balances are deemed immaterial.

Specifically:

- CSP needs improvement in procedures to track, manage and report Leasehold Improvements and Internal Use Software additions and deletions in the financial statements.
- CSP has no formal policy implemented for Internal Use Software Capitalization and Personal Property Management.
- CSP was unable to initially provide adequate evidence to support Capitalized Equipment, Leasehold Improvements, and Internal Use Software balances, additions and deletions for the period ending 6/30/07.
- During our FY 2007 CSP procurement testwork (6/30/07 - FMIS2) we identified 15 sample transactions related to PPE (Property, Leasehold Improvements, Internal Use Software), of which eight transactions were coded using a Sub-Object Code (SOC) that did not accurately characterize the PPE. The aforementioned 15 transactions totaled $3.0M, while the eight identified instances of incorrect SOC usage, totaled $2.9M.

Incorrect classification by SOC and inadequate documentation to support additions and deletions of capitalized Property, Leasehold Improvements or Internal Use Software may lead to potential financial statement misstatement.

RELATED NONCOMPLIANCE

Lack of adequate monitoring of property, plant and equipment and no formal system implemented to track additions or deletions to flow through to the financial statements contributed to noncompliance with the Federal accounting standards element of FFMIA.

RECOMMENDATIONS

KPMG recommends CSP:

1. Develop and implement a formal policy or procedure that addresses the need to adequately and accurately record all Property purchases that meet the capitalization criteria set forth by a CSP Personal Property Management Policy.
2. Develop a formal and systematic method of accumulating both direct and indirect costs (e.g., labor and hardware) incurred for the development of its project systems. To support this tracking of Internal Use Software costs, CSP should also ensure it retains adequate documentation supporting these capitalized costs.

MANAGEMENT RESPONSE

The DOJ/FMIS2 system did not provide integrated asset management capabilities and CSP used a stand-alone system (Barscan) system to track and control property. CSP used manual, cuff systems to track capitalized Leasehold Improvements and Internal Use Software projects. In July 2007, CSP migrated to an approved financial Shared Services Provider (Department of Interior's National Business Center) and financial management system (Oracle) with plans to fully integrate property management capabilities within Oracle. Due to Oracle functionality issues, this did not take place and Barscan is still used as the agency's stand-alone property management system.

CSP issued Accounting for Leasehold Improvement Policy (PS 5202) in February 2007. A draft Operational Procedure, outlining specific financial system transaction procedures for Leasehold Improvements, is in development. Draft Polices for Internal Use Software Capitalization and Personal Property Management are in development or pending approval.

CSP plans to begin tracking and accounting for new, capitalized Property, Leasehold Improvement and Software projects using Oracle asset management capabilities and unique Budget Object Classification (BOC) codes recorded with applicable purchase requisitions. Oracle-reported capitalized property will be compared to Barscan property data to ensure accuracy and completeness.

4. CSOSA SYSTEMS ACCESS CONTROL IMPROVEMENTS ARE NEEDED

The CSOSA has a policy that outlines which restrictive rights should be placed on users as well as how the information system enforces those rights across the CSOSA infrastructure. We found that the implementation of the policy remains to be a work in progress.

RECOMMENDATIONS

We recommend that CSOSA continue to implement their remediation plan with respect to least-privilege access controls over identified IT administrative duties and, until such controls are fully implemented, continue to leverage mitigating controls (i.e., audit and accountability controls of logging and monitoring activities associated with administrative activities) to address the weakness.

MANAGEMENT RESPONSE

CSOSA employs the practice and technical control of 'least privilege' across the CSOSA enterprise user base for its General Support System (GSS) and all major applications. Role-based technical access control and strong identification & authentication controls are in place. A plan of action and milestones, with remediation activities currently underway, addresses 'least privilege' pertaining to some IT administrative duties. It should be noted that there exists mitigating controls such as audit and accountability controls of logging and monitoring of the activities associated with these administrator privileges.

5. DISASTER RECOVERY SERVICE CONTINUITY IMPROVEMENTS ARE NEEDED

In the FY 2004 Performance and Accountability Report, auditors reported that CSOSA's plans for maintaining continuity of operations needed to be completed and fully tested. As of the time of prior-year audit follow-up review, CSOSA had not tested but had developed and formally adopted a Continuity of Operations Plan (COOP). CSOSA created an office for COOP under the agency Director of Security. CSOSA instituted systems backup procedures, and began implementing a "hot alternate site" for CSOSA's mission critical systems However, because the agency COOP has not been tested and the alternate IT hot site is not operational, this condition existed for FY 2005, FY 2006, and FY 2007.

RECOMMENDATIONS

We recommend that CSOSA:

- Continue to develop and implement the agency COOP Test Plan.
- Continue to establish and test operations at the Alternative IT Hot Site.

MANAGEMENT RESPONSE

CSOSA concurs with the finding when understood in the context of the *Enterprise* - inclusive of the (a) CSOSA General Support System, its major applications, and of the (b) *Shared Service* Financial Management System (FMS).

a. General Support System and Mission Critical Applications

Implementation and operation of the CSOSA Alternate IT Hot Site is planned for three phases as follows:

Phase I – Base Infrastructure, Exchange, Command and Control Telecommunications CSOSA Mission Critical Applications (SMART and SOR).

Phase II – PSA Mission Critical Applications (PRISM and WinTox DTMS)

Phase III – CSOSA Enterprise Data Warehouse/Business Intelligence Platform (not yet assigned as mission critical)

Phase I implementation is near complete and CSOSA expects to perform a full technical availability test by December 31, 2007.

As part of the routine implementation of the phased IT hot site capability, IT is performing substantial testing activities to ensure availability of secure communications, systems performance, and that the requisite procedures are documented for executing a contingency plan inclusive of the new hot site capability.

A subsequent IT contingency plan test as part of the overall Agency COOP plan test is expected to be performed by the end of FY 2008. This is a cooperative initiative led by the CSOSA COOP division of the Office of Security, and includes OIT, and the Office

b. FMS Shared Service

As of July 2007, the CSOSA FMS is hosted under a shared services contract with the Department of Interior's National Business Center (NBC). The NBC contract with CSOSA, the interconnection security agreement, SAS 70, testing (including participation of CSOSA OIT and OFM personnel and contractors) during the implementation of the service, include satisfactory assessment contingency capabilities of the NBC, and testing of alternate delivery/use of the business-critical FMS application service (alternate Internet SSL vs.

routine encrypted direct connect. CSOSA also understands that the auditor is evaluating the control set of the FMS/NBC as a separate analysis.

6. CHANGE CONTROL IMPROVEMENTS ARE NEEDED

In the FY 2004 Performance and Accountability Report, auditors reported that CSOSA had not fully developed a formal System Development Life Cycle (SDLC) and Change Control Plan to ensure that system changes are properly requested, authorized, documented, tested, and migrated into production.

Though CSOSA began a change control process in FY 2006, it was not formalized until February of 2007. A formal SDLC was instituted in June of 2007. Therefore, the condition existed in the FY 2006 audit period, and will be considered a partial reissue for the FY 2007 audit period.

RECOMMENDATIONS

We recommend that CSOSA maintain their SDLC methodology and change management policy, and ensure that their data and system owners adhere to the processes and procedures set forth.

MANAGEMENT RESPONSE

CSOSA OIT now has a formal change management process and SDLC that is in accordance with the NIST guidance cited above and that mitigates the risk identified.

7. CONTROLS SURROUNDING SECURITY PLANNING NEED IMPROVEMENT

In the FY 2004 Performance and Accountability Report, auditors reported that CSOSA's information security program weaknesses exposed key elements of CSOSA's networks, financial applications, and general support systems to unauthorized access and/or modification of sensitive data. In particular, weaknesses included incomplete risk assessments and no formal Authority to Operate (ATO), poor monitoring and enforcement of system access, and ineffective communication of security-related responsibilities to data owners and system administrators.

In FY 2005, CSOSA had not fully implemented an information security program, but had created a security plan and expanded the scope of risk assessment to include all of the controls of NIST Special Publication (SP) 800-53, including risk assessment, a formal certification and accreditation process, a formal access control and monitoring policy, procedures, and enabling technologies, and staff technical security training. An Interim ATO (IATO) was issued in 2005, but with several weaknesses identified as requiring remediation prior to full ATO.

In FY 2006, security test and evaluation of the system security plans again revealed weaknesses that required remediation before an ATO was granted. CSOSA revised its security master plan, conducted more comprehensive risk assessments of each of its major applications and the general support system, and planned, designed, and began implementation of the controls required for C&A during 2006 and 2007.

In August and September 2007, CSOSA tested and certified the systems again and they were deemed sufficient to grant ATO on October 1, 2007. However, because the formal ATO did not exist for the FY 2007 audit period, the finding is reissued.

RECOMMENDATIONS

We recommend that CSOSA continue to implement their C&A program in accordance with NIST SP 800-53.

MANAGEMENT RESPONSE

As found by the auditor, CSOSA systems have now been granted an ATO and the risk identified in this NFR, pertaining to the CSOSA GSS and major applications, is mitigated.

Additionally, with respect to the CSOSA Financial Management System (FMS), a formal Interconnection Security Agreement (ISA) was executed with the National Business Center, an assessment of the connection to the new CSOSA FMS Oracle Financials shared service, and a review of the NBC FMS SAS 70 was performed under the recent C&A and associated ATO.

Status of Prior Years' Findings and Recommendations

As required by *Government Auditing Standards* issued by the Comptroller General of the United States, and by OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of prior year findings and recommendations. The following table provides our assessment of the progress CSOSA has made in correcting the material weaknesses and reportable conditions identified during these audits. We also provide the fiscal year it was identified, our recommendation for improvement, and the status of the condition as of the date of this audit report, May 7, 2009:

Year	**Material Weakness or Significant Deficiency**	**Recommendation**	**Status**
2002	Significant Deficiency: Improvements are needed in the recordation of delivered and undelivered orders.	The CSOSA should monitor the status of obligations and adjust the status of obligations between undelivered and delivered orders as goods or services are received.	In Process, see Exhibit I.
2004	Material Weakness: Improvement needed in control activities over financial accounting.	CSP develop and implement a formal policy or procedure that addresses the need to adequately record all purchases that meet the capitalization criteria set forth by the CSP Personal Property Management Policy.	In Process, see Exhibit I.
2004		CSP develop and implement formal policy (e.g. CSP Personal Property Management Policy) and procedures addressing the need to adequately capture and correctly report all purchases that meet the capitalization criteria for leasehold improvements.	In Process, see Exhibit I.

Year	**Material Weakness or Significant Deficiency**	**Recommendation**	**Status**
2004		CSP and PSA implement a formal and systematic method of accumulating both direct and indirect costs (e.g. labor and hardware) incurred for the development of its project systems. The IT management and financial management personnel should work closely to develop a method of properly tracking costs and for determining whether the costs should be capitalized or expensed. Financial management needs to be made aware of the development and implementation plan of systems that may exceed the $500,000 threshold of capitalization established by both CSP and PSA. Furthermore, financial management should communicate the capitalization requirements for internal use software to the IT management to educate the program managers on the accounting standard and ensure proper accumulation of costs. To support this tracking of internal use software costs, CSP and PSA should also ensure it retains adequate documentation supporting these capitalized costs.	Open, see Exhibit I.
2004		CSP and PSA emphasize the importance of correctly classifying obligations as delivered and undelivered throughout the fiscal year. This communication should include explanation and training of what should be recorded as undelivered and delivered orders. This communication should be made to all levels of management to ensure those recording transactions, as well as those reviewing them, fully understand Federal accounting requirements.	Open, see Exhibit I.

Year	**Material Weakness or Significant Deficiency**	**Recommendation**	**Status**
		CSP and PSA implement or revise procedures to require periodic reviews (no less than quarterly) of all open obligations. This should include reviewing open obligations and the related supporting documentation to ensure obligations are correctly classified, documentation supports calculations of undelivered and delivered amounts recorded in the general ledger, and appropriate adjustments are made to deobligate expired obligations.	Open, see Exhibit I.
2004		CSP and PSA implement or revise supervisory review procedures to ensure detailed obligation reviews are followed throughout the fiscal year, allowing management to correct problems on a timely basis. Management should periodically select samples of obligations and verify open obligation reviews are working effectively by recalculating undelivered and delivered amounts based on supporting documentation. This would allow early identification of types of obligations where errors are not detected and corrected by the review process. When the sources or causes of the errors are identified, management should communicate the cause of the error to the appropriate individuals.	Open, see Exhibit I.
2004		CSP establish and implement policies and procedures that are consistent with generally accepted accounting principles to ensure the appropriate accounting treatment of grant transactions. CSP should also develop a policy for monitoring sub-recipient activity and implement an effective monitoring program. This will help ensure CSP is properly accruing for any unbilled services.	Open, see Exhibit I.

Year	Material Weakness or Significant Deficiency	Recommendation	Status
2004		CSP and PSA should review all services JMD provides to them, and identify a formal monitoring control over these activities.	Open, see Exhibit I.
2004	Material Weakness: Improvement needed in the financial reporting process.	CSOSA should build a closer working relationship between its two major component programs to ensure accurate information is presented in the financial statements for the areas of financial statement consolidation, preparation, disclosure, and presentation. Also, a formalized policy needs to be implemented regarding journal vouchers, including required supporting documentation and supervisory approval of every adjusting entry made as part of the financial reporting process. In addition, a supervisory review of the accuracy and completeness of the financial statements is needed to track the progress in meeting OMB deadlines. A higher degree of coordination between the groups would reduce the substantive effort that is needed to reconcile the differences identified.	Open, see Exhibit I.
2004	Significant Deficiency: Plans for maintaining continuity of operations need to be completed and fully tested.	CSOSA establish a completion date for CSOSA IT DRP component of agency's contingency plan. CSOSA periodically test the IT Continuity Plan. Based on the test results, determine if an alternate processing facility is needed for the restoration of both CSP and PSA systems. CSOSA routinely rotate backup tapes off-site to a secured location.	In Process, see Exhibit II.

Year	Material Weakness or Significant Deficiency	Recommendation	Status
2004	Significant Deficiency: Improvement needed in Controls over Information Security.	CSOSA assign specific resources for developing, documenting, approving, and implementing an agency-wide system security program that, at a minimum, follows the guidelines and standards prescribed by OMB Circular A-130 and NIST 8000-18. CSOSA develop enforcement mechanisms to ensure that all users comply with the agency-wide information security program, as well as consistently enforce policies and procedures for logical access to information resources that are based on the concepts of "least possible privilege."	Open, see Exhibit II.
2004	Significant Deficiency: Need improvement in system change control procedures for applications and system software.	CSOSA assign specific resources to update, finalize, and implement a CSOSA-wide system development and change control policies and procedures for all application and system software changes. CSOSA develop and implement a policy requiring personnel to maintain complete and proper documentation evidencing the completion of system changes. CSOSA develop a process to ensure that their data and system owners adhere to the system development and change control polices and procedures.	Open, see Exhibit II.