

Department of Homeland Security **Office of Inspector General**

Office of Health Affairs' Management Letter for FY 2012
DHS Consolidated Financial Statements Audit





OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

APR 4 2013

MEMORANDUM FOR: Michael Murfee
Budget and Finance Branch
Office of Health Affairs

FROM: Anne L. Richards 
Assistant Inspector General for Audits

SUBJECT: *Office of Health Affairs' Management Letter for FY 2012
DHS Consolidated Financial Statements Audit*

Attached for your information is our final report, *Office of Health Affairs' Management Letter for FY 2012 DHS Consolidated Financial Statements Audit*. This report contains observations related to internal control deficiencies that were not required to be reported in the *Independent Auditors' Report on DHS' FY 2012 Financial Statements and Internal Control over Financial Reporting*. Internal control deficiencies that are considered significant deficiencies were reported, as required, in the *Independent Auditors' Report*, dated November 14, 2012, which was included in the *DHS FY 2012 Annual Financial Report*. We do not require management's response to the recommendations.

The independent public accounting firm KPMG LLP conducted the audit of DHS' FY 2012 financial statements and is responsible for the attached management letter dated March 12, 2013, and conclusions expressed in it. We do not express opinions on DHS' financial statements or internal control, nor do we provide conclusions on compliance with laws and regulations.

Please call me with any questions, or your staff may contact Mark Bell, Deputy Assistant Inspector General for Audits, at (202) 254-4100.

Attachment



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

March 12, 2013

Office of Inspector General
U.S. Department of Homeland Security, and
Chief Financial Officer,
U.S. Department of Homeland Security Office of Health Affairs
Washington, DC

Ladies and Gentlemen:

We have audited the balance sheet of the U.S. Department of Homeland Security (DHS or Department) as of September 30, 2012 and the related statements of net cost, changes in net position and custodial activity, and combined statement of budgetary resources for the year then ended (referred to herein as the “fiscal year (FY) 2012 financial statements”). The objective of our audit was to express an opinion on the fair presentation of these financial statements. We were also engaged to examine the Department’s internal control over financial reporting of the FY 2012 financial statements, based on the criteria established in Office of Management and Budget (OMB), Circular No. A-123, *Management’s Responsibility for Internal Control*, Appendix A.

Our *Independent Auditors’ Report*, issued on November 14, 2012, describes a limitation on the scope of our audit that prevented us from performing all procedures necessary to express an unqualified opinion on the DHS’ FY 2012 financial statements and internal control over financial reporting. In addition, the FY 2012 DHS *Secretary’s Assurance Statement* states that the Department was able to provide qualified assurance that internal control over financial reporting was operating effectively at September 30, 2012. We have not considered internal control since the date of our *Independent Auditors’ Report*.

In accordance with *Government Auditing Standards*, our *Independent Auditors’ Report*, referred to in the paragraph above, included internal control deficiencies identified during our audit, that individually, or in aggregate, represented a material weakness or a significant deficiency.

The Office of Health Affairs (OHA) is a component of DHS. We noted certain matters, related to OHA, that are summarized in the Table of Financial Management Comments on the following pages, involving internal control and other operational matters that are less severe than a material weakness or a significant deficiency, and consequently are reported separately to the Office of Inspector General (OIG) and OHA management in this letter. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. The disposition of each internal control deficiency identified during our FY 2012 audit – as either reported in our *Independent Auditors’ Report*, or herein – is presented in Appendix A.

We would be pleased to discuss these comments and recommendations with you at any time. This report is intended for the information and use of the DHS’ and OHA’s management, the DHS OIG, the U.S. OMB, the U.S. Congress, and the Government Accountability Office, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Office of Health Affairs
Table of Financial Management Comments
September 30, 2012

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

Comment Reference	Subject	Page
FMC 12-01	Bioshield Accounts Payable Accrual	2
FMC 12-02	Contract Management	2

APPENDIX

Appendix	Subject	Page
A	Crosswalk – Financial Management Comments to Active Notices of Finding and Recommendation (NFRs)	3

FMC 12-01 – Bioshield Accounts Payable Accrual (NFR No. OHA 12-01)

Office of Health Affairs (OHA) records obligations (in the amount of funds to be transferred to Health and Human Services (HHS) and disbursements (in the amount of the payments made by HHS to vendors) in its own financial statements. At the end of each month, OHA records an accrual to cover the portion of expenses incurred by HHS that have not yet been recorded against the BioShield obligation by OHA.

However, OHA did not have controls in place throughout fiscal year (FY) 2012 to link expenses (i.e., HHS Intragovernmental Payment and Collections (IPACs)) to the BioShield obligation in an accurate and timely manner. In addition, we noted that the FY 2011 accrual was overstated, resulting in an understatement of current year expenses.

Recommendations:

We recommend that OHA:

- Continue to utilize the revised spreadsheet to calculate the BioShield accrual, which will streamline the overall process and reduce the amount of manual data input.
- Continue to reconcile the detailed data provided by HHS to the amounts obligated in OHA's financial system on a monthly basis.

FMC 12-02 – Contract Management (NFR No. OHA 12-02)

OHA's review of outstanding undelivered order balances is not operating effectively to ensure obligations are properly modified, extended or de-obligated timely. Specifically, we noted one BioShield contract selected for testwork, which was approximately \$143,926,000, had an expired period of performance (POP).

Recommendation:

We recommend that OHA review the POP for obligations to ensure the POP is properly updated and/or modified as needed.

Office of Health Affairs
Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2012

NFR No.	Description	Disposition ¹			
		IAR			FMC
		MW	SD	NC	No.
12-01	Bioshield Accounts Payable Accrual				12-01
12-02	Contract Management				12-02

¹Disposition Legend:

IAR	Independent Auditors' Report dated November 14, 2012
FMC	Financial Management Comment
MW	Contributed to a Material Weakness at the Department level when combined with the results of all other components
SD	Contributed to a Significant Deficiency at the Department level when combined with the results of all other components
NC	Contributed to Non-Compliance with laws, regulations, contracts, and grant agreements at the Department level when combined with the results of all other components
NFR	Notice of Finding and Recommendation

Cross-reference to the applicable sections of the IAR:

A	Financial Reporting
B	Information Technology Controls and System Functionality
C	Property, Plant, and Equipment
D	Environmental and Other Liabilities
E	Budgetary Accounting
F	Entity-Level Controls
G	Grants Management
H	Custodial Revenue and Drawback
I	<i>Federal Managers' Financial Integrity Act of 1982 (FMFIA)</i>
J	<i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i>
K	<i>Single Audit Act Amendments of 1996</i>
L	<i>Antideficiency Act, as amended (ADA)</i>



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Department of Homeland Security

Appendix B
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Should you be unable to access our website, you may submit your complaint in writing to: DHS Office of Inspector General, Attention: Office of Investigations Hotline, 245 Murray Drive, SW, Building 410/Mail Stop 2600, Washington, DC, 20528; or you may call 1 (800) 323-8603; or fax it directly to us at (202) 254-4297.

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