

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

Management Directorate's 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 5 2013

MEMORANDUM FOR: Stacy Marcott
Deputy Chief Financial Officer
Management Directorate

FROM: Anne L. Richards 
Assistant Inspector General for Audits

SUBJECT: *Management Directorate's Management Letter for
FY 2012 DHS Consolidated Financial Statements Audit*

Attached for your information is our final report, *Management Directorate's Management Letter for FY 2012 DHS Consolidated Financial Statements Audit*. This report contains an observation related to an internal control deficiency that was 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 Management Directorate
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 Management Directorate (MGT) is a component of DHS. We noted certain matters, related to MGT, 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 MGT 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. The status of internal control deficiencies identified during our FY 2011 audit is presented in Appendix B.

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 MGT’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

Management Directorate
Table of Financial Management Comments
September 30, 2012

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

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FMC 12-01 – Inadequate Internal Controls over Property Plant and Equipment (PP&E) (NFR No. MGT 12-01)

During fiscal year (FY) 2012, the Management Directorate (MGT) was in the process of implementing an asset management system with robust processes and controls. As such, MGT continues to rely on manual processes to track and report PP&E. Although MGT has piloted inventory procedures at program offices, it did not have procedures in place for a comprehensive inventory in FY 2012.

During interim testwork over PP&E, we noted that:

- One FY 2012 real property addition included capitalized costs from FY 2011.
- One personal property addition did not properly include all capitalized costs, which resulted in an understatement of capitalized assets. For the same item, the invoices to support the addition included non-capitalized technical support costs, which resulted in an overstatement of capitalized assets.
- One personal property item was capitalized in FY 2012, but receiving tickets showed the property was received in FY 2011.

Recommendations:

We recommend that MGT:

- Design, implement, and document additional policies, procedures, and internal controls that will help ensure the PP&E recorded in the asset management system exists, that it is complete and accurate, and that it is properly valued.
- Provide Sunflower Asset Management System (SAMS) training to the property management custodians.

Management Directorate
Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2012

NFR No.	Description	Disposition ¹			
		IAR			FMC
		MW	SD	NC	No.
12-01	Inadequate Internal Controls over Property Plant and Equipment (PP&E)				12-01
12-02	Unfilled Customer Orders in Working Capital Fund	E			
12-03	Untimely de-obligation of Undelivered Order (UDO) balances	E			

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 *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*J *Federal Financial Management Improvement Act of 1996 (FFMIA)*K *Single Audit Act Amendments of 1996*L *Antideficiency Act, as amended (ADA)*

Management Directorate
Status of Prior Year NFRs
 September 30, 2012

NFR No.	Description	Disposition ¹	
		Closed ²	Repeat (2011 NFR No.)
11-01	Inadequate Internal Controls over Property Plant and Equipment (PP&E)		MGT-12-01

¹ KPMG was engaged to perform an audit over the DHS balance sheet 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. In addition, we were engaged to follow up on the status of all active NFRs that supported significant deficiencies reported in our FY 2011 *Independent Auditors' Report*.

² The scope of our audit was limited to follow-up on NFRs that supported a material weakness or significant deficiency as reported in our *Independent Auditors' Report*. All other NFRs, e.g., that described insignificant findings, and therefore presented to DHS management as observations for consideration, were considered closed.



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The OIG seeks to protect the identity of each writer and caller.