

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

The Office of Financial Management'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](http://www.oig.dhs.gov)

APR 5 2013

MEMORANDUM FOR: Larry Bedker  
Director  
Office of Financial Management

FROM: Anne L. Richards   
Assistant Inspector General for Audits

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

Attached for your information is our final report, *The Office of Financial Management's 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 *FY 2012 DHS 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 Financial Management  
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 Financial Management (OFM) is part of DHS. We noted certain matters, related to OFM, 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 OFM 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 OFM’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**

Department of Homeland Security  
*Table of Financial Management Comments*  
September 30, 2012

**TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)**

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**APPENDIX**

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**FMC 12-01 – Interim Contingent Legal Liabilities Review (NFR No. CONS 12-02)**

As a result of our testwork and review of the FY 2012 interim contingent legal liability management schedule, case templates and component disclosure statements, we noted the following:

- Four instances where the information included on the management schedule and case templates did not agree.
- One instance where the materiality threshold for a legal disclosure statement did not match the legal materiality for the component.

*Recommendation:*

We recommend that DHS Financial Management continue to make improvements in executing existing controls related to the legal liability process.

**FMC 12-02 – Preparation and Review of the Special-Purpose Financial Statements and Notes (NFR No. CONS 12-04)**

During our audit of the closing package, we identified the following errors, related to the Government-wide Financial Report System (GFRS) Financial Report (FR) Note Reports and Trading Partner Summary Note:

- GF006 – Note 06 – PP&E – Cost of PP&E for each category section – the amount listed in Line 3 – CIP was overstated by \$99 million and the amount listed in Line 5 – IUS was understated by \$99 million.
- GF006 – Note 06 – PP&E – Intra-governmental Capitalized acquisition amounts section – the amount listed in Line 1 – GSA was overstated by \$46 million and the amount listed in Line 6 – All other departments was overstated by \$145 million, resulting in a \$191 million overstatement.
- GF006 – Note 06 – PP&E – for the prior year PP&E column, the amount listed in Line 1 – PP&E – balance beginning of year was overstated, the amount in Line 2 – Prior-period adjustments (not restated) was understated by \$153 million, the amount in Line 3 – Capitalized acquisition from the public was understated by \$234 million, the amount in Line 4 – Capitalized acquisitions from Government agencies was overstated by \$149 million, and the amount on Line 6 – Deletions from the Balance Sheet was understated by \$116 million, resulting in an understatement of \$351 million.
- GF006 – Note 06 – PP&E – for the prior year Accum. Depr. Column, the amount listed in Line 1 – PP&E – balance beginning of year was overstated by \$2 million, the amount listed in Line 2 – Prior-period adjustments (not restated) was understated by \$20 million, and the amount listed in Line 6 – Deletions from the Balance Sheet was understated by \$18 million, resulting in an understatement of \$36 million.
- GF006 – Note 18 – Contingencies (SFFAS Nos. 5 and 12) – Civil Litigation, Claims and Assessments section – the amount in Line 2 – Reasonably Possible for current year Estimated Range (High end) was understated by \$78 million, the amount in Line 1 – Probable for current year Claim amount (Unable to determine loss) was overstated by \$11 million, and the amount in Line 2 – Reasonably Possible for current year Claim amount (Unable to determine loss) was understated by \$9 million.
- GF006 – Note 26 – Heritage Assets – Text data section – the narrative data in Line 3 was not updated for FY 2012.

Department of Homeland Security  
*Financial Management Comments*  
September 30, 2012

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- The Coast Guard does not have properly designed, implemented, and effective policies, procedures, processes, and controls surrounding its financial reporting process to ascertain that intra-governmental activities and balances are identified and coded to the correct trading partner. Additionally, differences, especially with agencies outside DHS, are not consistently investigated and resolved in a timely manner in coordination with the Department's OFM.

*Recommendations:*

We recommend that DHS:

- Conduct a comprehensive review of the current GFRS FR note preparation and review process and identify additional areas for automation and streamlining and document each FR note's process in detail to show more data sources.
- Enhance the quality control process of component-provided data (manual notes and other text explanations) prior to consolidation and input into GFRS.

Department of Homeland Security  
*Crosswalk – Financial Management Comments to Active NFRs*  
 September 30, 2012

NFR No.	Description	Disposition <sup>1</sup>			
		IAR			FMC
		MW	SD	NC	No.
12-01	Departmental Standards of Conduct and Procedural Guidance for Financial Disclosure Report Filing		F		
12-02	Interim Contingent Legal Liabilities Review				12-01
12-03	Deficiencies in the public and confidential financial disclosure reporting process		F		
12-04	Preparation and Review of the Special-Purpose Financial Statements and Notes				12-02

<sup>1</sup>Disposition 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)*

Department of Homeland Security  
*Status of Prior Year NFRs*  
 September 30, 2012

NFR No.	Description	Disposition <sup>1</sup>	
		Closed <sup>2</sup>	Repeat (2011 NFR No.)
11-01	Departmental Standards of Conduct and Procedural Guidance for Financial Disclosure Report Filing		CONS 12-01
11-02	Audited Financial Statements	X	
11-03	Untimely Filing and Review of SF-278 Financial Disclosure Reports		CONS 12-03
11-04	Non-Compliance with OMB Circular A-136 & <i>Government Performance and Results Act</i>	X	
11-05	Preparation and Review of the Special-Purpose Financial Statements and Notes		CONS 12-04
11-06	Findings Related to the Disbursement Process	Note 1	

<sup>1</sup> KPMG was engaged to perform an audit over the DHS balance sheet 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*.

<sup>2</sup> 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.

Note 1: Due to the expanded scope in the FY 2012 audit, this finding was addressed at the component level.



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

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**Appendix C**  
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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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