

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

Intelligence and Analysis's Management Letter for FY 2013 DHS Financial Statements Audit





OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

APR 21 2014

MEMORANDUM FOR: Philip Groven
Acting Chief of Staff
Office of Intelligence and Analysis

FROM: *for* Anne L. Richards *Mark Bell*
Assistant Inspector General for Audits

SUBJECT: *Intelligence and Analysis's Management Letter for FY 2013
DHS Financial Statements Audit*

Attached for your information is our final report, *Intelligence and Analysis's Management Letter for FY 2013 DHS Financial Statements Audit*. This report contains one comment and one recommendation related to an internal control deficiency that was not required to be reported in the *Independent Auditors' Report on DHS' FY 2013 Financial Statements and Internal Control over Financial Reporting*. Internal control deficiencies which are considered significant deficiencies were reported, as required, in the *Independent Auditors' Report*, dated December 11, 2013, which was included in the Department of Homeland Security's (DHS) fiscal year (FY) 2013 Agency Financial Report. We do not require management's response to the recommendation.

We contracted with the independent public accounting firm KPMG LLP (KPMG) to conduct the audit of the DHS' FY 2013 financial statements and internal control over financial reporting. The contract required that KPMG perform its audit according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG is responsible for the attached management letter dated January 15, 2014, and the conclusions expressed in it.

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

January 15, 2014

Office of Inspector General
U.S. Department of Homeland Security, and
Chief Financial Officers
U.S. Department of Homeland Security, Intelligence & Analysis and Operations
Washington, DC

Ladies and Gentlemen:

We have audited the financial statements of the U.S. Department of Homeland Security (DHS or Department) for the year ended September 30, 2013 (referred to herein as the “fiscal year (FY) 2013 financial statements”), and have issued our report thereon dated December 11, 2013. In planning and performing our audit of the financial statements of DHS, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. In conjunction with our audit of the financial statements, we also performed an audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants.

Intelligence & Analysis (I&A) and Operations (OPS) (I&A/OPS) is a component of DHS. During our audit, we noted certain matters involving internal control and other operational matters, related to I&A/OPS, that are presented for your consideration. 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. These matters are summarized in the Table of Financial Management Comments on the following pages. The disposition of each internal control deficiency identified during our FY 2013 audit – as either reported in our *Independent Auditors’ Report*, or herein – is presented in Appendix A. Our findings related to information technology systems have been presented in a separate letter to the DHS Office of Inspector General, the FLETC Chief Information Officer, and Chief Financial Officer.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and on the effectiveness of internal control over financial reporting, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of I&A/OPS’s organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

The purpose of this letter is solely to describe comments and recommendations intended to improve internal control or result in other operating efficiencies. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

Intelligence & Analysis and Operations
Table of Financial Management Comments
September 30, 2013

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

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APPENDIX

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Intelligence & Analysis and Operations
Financial Management Comments
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FMC 13-01 – Ineffective Monitoring of Undelivered Orders (*Notice of Finding and Recommendation No. Intelligence & Analysis/Operations (MGA or I&A/OPS) 13-02*)

Based on our review of 13 sample items, we noted that for 5 of the 13 undelivered orders (UDOs) tested, the contract/agreement period of performance had ended and the contract/agreement was no longer valid.

Of the five invalid UDOs identified, we determined two were categorized as a “Status 2”, indicating that management was currently reviewing the obligation, within management’s UDO analysis as of June 30, 2013. However, based on our review of these items, we determined they should have been categorized as a “Status 3”, obligation identified to be deobligated, or a “Status 4”, obligation awaiting close out by another Department within DHS. Therefore, the unused balances for these items were not appropriately identified for de-obligation. As such, we determined that management’s completion and review of the UDO analysis as of June 30, 2013, was not effective.

Additionally, as of June 30, 2013, management determined that the balance for “inactive”/“invalid” UDOs totaled \$60 million. During the fourth quarter, management de-obligated approximately \$16 million and provided the Department with an additional adjustment for approximately \$12 million as of September 30, 2013. We noted that there was a remaining balance of \$32 million that represented invalid UDOs that had not been deobligated or adjusted.

Recommendation:

We recommend that I&A/OPS work with FLETC and the Procurement Office to ensure that an adequate review of obligated balances is performed. To improve this process, I&A/OPS should work with FLETC and the Procurement Office to enhance the existing system of monitoring contracts with periods of performance that are set to expire.

Intelligence & Analysis and Operations
 Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2013

Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
MGA	13-01	Potential Antideficiency Act Violation			L	
MGA	13-02	Ineffective Monitoring of Undelivered Orders				13-01

¹Disposition Legend:

IAR	Independent Auditors' Report dated December 11, 2013
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 Financial Systems Functionality
C	Property, Plant, and Equipment
D	Budgetary Accounting
E	Entity-Level Controls
F	Liabilities
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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Appendix A
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ADDITIONAL INFORMATION

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For further information or questions, please contact Office of Inspector General (OIG) Office of Public Affairs at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov, or follow us on Twitter at: [@dhsoig](https://twitter.com/dhsoig).

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Should you be unable to access our website, you may submit your complaint in writing to:

Department of Homeland Security
Office of Inspector General, Mail Stop 0305
Attention: Office of Investigations Hotline
245 Murray Drive, SW
Washington, DC 20528-0305

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