

OFFICE OF INSPECTOR GENERAL

Domestic Nuclear Detection Office's Management Letter for DHS' FY 2014 Financial Statements Audit



Homeland
Security

April 29, 2015
OIG-15-84



HIGHLIGHTS

Domestic Nuclear Detection Office's Management Letter for DHS' FY 2014 Financial Statements Audit

April 29, 2015

Why We Did This

The Federal Government has a fundamental responsibility to be an effective steward of taxpayers' dollars. Sound financial practices and related management operations, reliable financial systems, and effective internal control are essential for reliable, timely financial information that supports management decision making needed to achieve the Department of Homeland Security's (DHS) mission.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-IG.OfficePublicAffairs@oig.dhs.gov

What We Found

KPMG LLP reviewed the Domestic Nuclear Detection Office's (DNDO) internal control over financial reporting. The management letter contains one observation related to internal control and other operational matters for management's considerations.

KPMG LLP noted a deficiency and the need for improvement in certain DNDO processes. This deficiency did not meet the criteria to be reported in the *Independent Auditors' Report on DHS' FY 2014 Financial Statements and Internal Control over Financial Reporting*, dated November 14, 2014, included in DHS' fiscal year 2014 *Agency Financial Report*. This observation is intended to improve internal control or result in other operating efficiencies.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

APR 29 2015

MEMORANDUM FOR: Patrick Moore
Chief Financial Officer
Domestic Nuclear Detection Office

FROM: Mark Bell *Mark Bell*
Assistant Inspector General for Audits

SUBJECT: *Domestic Nuclear Detection Office's Management Letter
for DHS' FY 2014 Financial Statements Audit*

Attached for your information is our final report, *Domestic Nuclear Detection Office's Management Letter for DHS' FY 2014 Financial Statements Audit*. This report contains an observation related to internal control deficiency that was not required to be reported in the *Independent Auditors' Report on DHS' FY 2014 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 November 14, 2014, which was included in the Department of Homeland Security (DHS) fiscal year (FY) 2014 *Agency 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 2014 financial statements and is responsible for the attached management letter and the conclusions expressed in it.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

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

Attachment



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

December 8, 2014

Office of Inspector General
U.S. Department of Homeland Security, and
Chief Financial Officer
U.S. Department of Homeland Security, Domestic Nuclear Detection Office
Washington, DC

Ladies and Gentlemen:

In planning and performing our audit of the consolidated financial statements of the U.S. Department of Homeland Security (DHS or Department), as of and for the year ended September 30, 2014, 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. 14-02, *Audit Requirements for Federal Financial Statements*, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements. In conjunction with our audit of the consolidated 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.

The Domestic Nuclear Detection Office (DNDO) is a component of DHS. During our audit we noted certain matters involving internal control and other operational matters, related to DNDO, 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 2014 audit – as either reported in our *Independent Auditors' Report*, or herein as a financial management letter comment – is presented in Appendix A.

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 DNDO'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

Domestic Nuclear Detection Office
Table of Financial Management Comments
September 30, 2014

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

Comment Reference	Subject	Page
FMC 14-01	Undelivered Orders	2

APPENDIX

Appendix	Subject	Page
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Domestic Nuclear Detection Office
Financial Management Comments
September 30, 2014

FMC 14-01 – Undelivered Orders (*Notice of Finding and Recommendation (NFR) No. Domestic Nuclear Detection Office (DNDO) 14-01*)

Controls were not operating effectively to ensure the timely deobligation of undelivered orders. Specifically, we noted two instances in which obligations undergoing a Defense Contract Audit Agency audit were not identified for deobligation. In another instance, a credit issued to a grant related obligation that had been closed in a previous fiscal year created a false obligation balance which was not proposed for deobligation during the fourth quarter obligation analysis.

Recommendation:

We recommend that DNDO reinforce existing procedures over review of open obligations.

Domestic Nuclear Detection Office
Crosswalk - Financial Management Comments to Active NFRs
 September 30, 2014

Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
DNDO	14-01	Undelivered Orders				14-01

¹Disposition Legend:

IAR	Independent Auditors' Report dated November 13, 2014
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	Grants Management
G	Custodial Revenue and Drawback
H	<i>Federal Managers' Financial Integrity Act of 1982 (FMFIA)</i>
I	<i>Single Audit Act Amendments of 1996</i>
J	<i>Antideficiency Act, as amended (ADA)</i>
K	<i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i>



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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