

**OFFICE OF INSPECTOR GENERAL**

**Management Directorate's  
Management Letter for DHS'  
FY 2015 Financial Statements  
Audit**



Homeland  
Security

**April 11, 2016  
OIG-16-62**



# DHS OIG HIGHLIGHTS

## *Management Directorate's Management Letter for DHS' FY 2015 Financial Statements Audit*

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**April 11, 2016**

### **Why We Did This Audit**

The *Chief Financial Officers Act of 1990* (Public Law 101-576) and the *Department Of Homeland Security Financial Accountability Act* (Public Law 108-330) require us to conduct an annual audit of the Department of Homeland Security's (DHS) consolidated financial statements and internal control over financial reporting.

#### **For Further Information:**

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

### **What We Found**

We contracted with the independent public accounting firm KPMG LLP (KPMG) to audit the DHS' fiscal year (FY) 2015 consolidated financial statements and internal control over financial reporting. The resulting management letter contains two observations related to internal control and other operational matters for management's consideration. KPMG noted deficiencies and the need for improvement in the design, implementation, and operation of controls. These deficiencies are not considered significant and were not required to be reported in the *Independent Auditors' Report on DHS' FY 2015 Financial Statements and Internal Control over Financial Reporting*, dated November 13, 2015, included in the DHS FY 2015 *Agency Financial Report*. These observations are intended to improve internal control or result in other operating efficiencies.



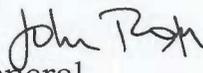
## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / [www.oig.dhs.gov](http://www.oig.dhs.gov)

April 11, 2016

MEMORANDUM FOR: The Honorable Chip Fulghum  
Deputy Under Secretary for Management and  
Chief Financial Officer  
Management Directorate

FROM: John Roth   
Inspector General

SUBJECT: *Management Directorate's Management Letter for DHS'  
FY 2015 Financial Statements Audit*

Attached for your action is our final report, *Management Directorate's Management Letter for DHS' FY 2015 Financial Statements Audit*. This report contains observations related to internal control deficiencies that were not required to be reported in the *Independent Auditors' Report* over the Department of Homeland Security (DHS) fiscal year (FY) 2015 financial statements and internal control over financial reporting. Internal control deficiencies were reported, as required, in the *Independent Auditors' Report*, dated November 13, 2015, which was included in the DHS FY 2015 *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 2015 financial statements and is responsible for the attached management letter dated December 18, 2015, and the conclusions expressed in it.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to 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 Mark Bell, Assistant Inspector General for Audits, at (202) 254-4100.

Attachment



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

December 18, 2015

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:

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, 2015, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *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 financial statements. In conjunction with our audit of the general purpose 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 Management Directorate (MGMT) is a component of DHS. During our audit we noted certain matters involving internal control and other operational matters, related to MGMT, 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. The disposition of each internal control deficiency identified during our FY 2015 audits – as either reported in our *Independent Auditors' Report*, or herein as a financial management letter comment – 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 MGMT 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 MGMT'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**

Management Directorate  
*Table of Financial Management Comments*  
September 30, 2015

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

<b>Comment Reference</b>	<b>Subject</b>	<b>Page</b>
FMC 15-01	Statement of Differences	2
FMC 15-02	Entity-Level Controls – Performance Reviews	2

**APPENDIX**

<b>Appendix</b>	<b>Subject</b>	<b>Page</b>
A	Crosswalk – Financial Management Comments to Active Notices of Findings and Recommendations (NFRs)	3

Management Directorate  
*Financial Management Comments*  
*September 30, 2015*

**FMC 15-01 – Statement of Differences (NFR No. MGMT 15-08)**

Controls were not properly designed and implemented to effectively resolve reconciling items on the statement of differences reconciliation prepared by the service provider. Specifically, we noted a significant number of reconciling items which were aged greater than 60 days.

*Recommendation:*

MGMT should develop and implement processes to ensure reconciling items related to the statement of differences reconciliation are cleared timely.

**FMC 15-02 – Entity-Level Controls – Performance Reviews (NFR No. MGMT 15-10)**

Controls were not operating effectively to ensure Performance Appraisal Forms were reviewed and approved. Specifically, in our review of the Performance Appraisal Forms for 15 employees, we identified one instance in which the initial Performance Work Plan, mid-cycle review, and final Performance Appraisal Review Form were not reviewed and approved by the reviewing official.

*Recommendation:*

MGMT should develop a process to allow the Office of Human Capital to escalate and enforce existing policies and procedures related to performance reviews.

Management Directorate  
 Crosswalk – Financial Management Comments to Active NFRs  
 September 30, 2015

Component	NFR No.	Description	Disposition			
			IAR			FMC
			MW	SD	NC	No.
MGMT	15-01	Monitoring of Service Provider Performed Functions	A			
MGMT	15-02	Federal Financial Management System to PRISM Reconciliation		D		
MGMT	15-03	Suspense Reconciliation	A			
MGMT	15-04	Review of Aged Accounts Receivable Balances	A			
MGMT	15-05	Undelivered Orders		D		
MGMT	15-06	Journal Entry Review Process	A			
MGMT	15-07	Operating Expense Approval	A			
MGMT	15-08	Statement of Differences				15-01
MGMT	15-09	Antideficiency Act			J	
MGMT	15-10	Entity-Level Controls – Performance Reviews				15-02

<sup>1</sup>Disposition Legend:

IAR	Independent Auditors' Report dated November 13, 2015
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 System Functionality
C	Property, Plant, and Equipment
D	Budgetary Accounting
E	Entity-Level Controls
F	Grants Management
G	Custodial Revenue and Refunds 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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