

OFFICE OF INSPECTOR GENERAL

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



Homeland
Security

**May 3, 2016
OIG-16-76**



DHS OIG HIGHLIGHTS

Science and Technology Directorate's Management Letter for DHS' FY 2015 Financial Statements Audit

May 3, 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

What We Found

KPMG LLP, under contract with the DHS Office of Inspector General, audited the Science and Technology Directorate's financial statements and internal control over financial reporting for fiscal year (FY) 2015. The resulting management letter contains four observations related to internal controls and other operational matters for management's consideration. KPMG LLP noted internal control deficiencies and the need for improvement in several processes including intra-governmental payment and collection expense approval, impairment analysis, accounting for land donation, and unfilled customer orders. 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

MAY 3 2016

MEMORANDUM FOR: Richard Williams
Chief Financial Officer
Science and Technology Directorate

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

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

Attached for your action is our final report, *Science and Technology Directorate's Management Letter for DHS' FY 2015 Financial Statements Audit*. This report contains four observations related to internal control deficiencies that were not required to be reported in our *Independent Auditors' Report on DHS' FY 2015 Financial Statements and Internal Control over Financial Reporting*, dated November 13, 2015, which was included in the Department of Homeland Security's (DHS) fiscal year (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 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 Maureen Duddy, Deputy Assistant Inspector General for Audits, at (617) 565-8723.

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, Science and Technology 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 Science and Technology Directorate (S&T) is a component of DHS. During our audit we noted certain matters involving internal control and other operational matters, related to S&T, 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, S&T Chief Information Officer and S&T 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 S&T'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

Science and Technology Directorate
Table of Financial Management Comments
September 30, 2015

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

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Science and Technology Directorate
Financial Management Comments
September 30, 2015

FMC 15-01 – Intra-Governmental Payment and Collection Expense Approval (NFR No. S&T 15-02)

Controls were not fully implemented to ensure that the S&T contracting officer representatives' post review of Intra-Governmental Payments and Collections (IPACs) is completed timely. Per the S&T IPAC Processing Finance and Budget Division Financial Manual, IPACs not reviewed and approved by the contracting officer representative within 30 days are automatically approved by moving to a "Complete" status in the invoice approval module, Webview.

Recommendations:

We recommend that S&T:

- Provide training to program managers, contracting officer representatives, and financial analysts to reiterate the importance of reviewing IPACs.
- Produce statistics reflecting which offices have not reviewed IPACs.
- Review and revise the S&T IPAC Processing Finance and Budget Division Financial Manual to reflect the change in procedures.

FMC 15-02 –Impairment Analysis (NFR No. S&T 15-04)

Controls were not designed to record adjustment to property, plant, and equipment values in the general ledger for assets identified as inactive. Specifically, we noted that S&T had at least one inactive building that was not fully depreciated and the net book value in the financial statements had not been adjusted to zero.

Recommendations:

We recommend that S&T Finance and Budget Division develop policies and procedures to:

- Verify the net book value of buildings identified as inactive.
- Coordinate with the Administration and Support Division to identify and report property that meets the accounting definition of impaired property during quarterly reporting.
- Adjust net book value to zero if an inactive building meets the accounting definition of impaired property and still has remaining net book value.

FMC 15-03 – Accounting for National Bio and Agro-Defense Facility Land Donation (NFR No. S&T 15-08)

Controls were not operating effectively to ensure that the 45.6 acres of land donated by the State of Kansas for the National Bio and Agro-Defense Facility was appropriately recorded at fair value. We note that management proposed an on-top adjustment to appropriately record these balances.

Science and Technology Directorate
Financial Management Comments
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Recommendation:

We noted that while S&T obtained an estimate of the value of the donated land and posted a prior period adjustment to record the estimated value of the donated land, we recommend they reinforce existing policies and procedures to ensure land is properly valued and recorded.

FMC 15-04 – Unfilled Customer Orders (NFR No. S&T 15-10)

Controls were not operating effectively to ensure that unfilled customer orders were recorded in the general ledger properly. Specifically, we noted one instance in which an unfilled customer order was recorded in the general ledger in excess of the agreement. This resulted in an overstatement of the unfilled customer order balance.

Recommendation:

S&T should continue to coordinate with its accounting service provider (Immigration and Customs Enforcement) to verify that reimbursable agreements are created in accordance with the related agreements.

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

Component	NFR No.	Description	Disposition			
			IAR			FMC
			MW	SD	NC	No.
S&T	15-01	Monitoring of Service Provider Performed Functions	A			
S&T	15-02	Intra-Governmental Payment and Collection Expense Approval				15-01
S&T	15-03	Operating Expense Approval	A			
S&T	15-04	Impairment Analysis				15-02
S&T	15-05	Undelivered Orders		D		
S&T	15-06	Depreciation Expense	A			
S&T	15-07	FFMS to PRISM Reconciliation		D		
S&T	15-08	Accounting for National Bio and Agro-Defense Facility Land Donation				15-03
S&T	15-09	Invalid Undelivered Orders Balances		D		
S&T	15-10	Unfilled Customer Orders				15-04

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>



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Appendix B
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