

**Science and Technology
Directorate's
Management Letter for
DHS' Fiscal Year 2016
Financial Statements
Audit**





DHS OIG HIGHLIGHTS

Science and Technology Directorate's Management Letter for DHS' Fiscal Year 2016 Financial Statements Audit

June 26, 2017

Why We Did This Report

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.

During the fiscal year (FY) 2016 audit of DHS' consolidated financial statements and internal control over financial reporting, KPMG LLP noted certain matters involving the Science and Technology Directorate's internal control and other operational matters.

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 FY 2016. The resulting management letter contains three observations related to internal controls and other operational matters which are presented in this report for management's consideration. KPMG LLP noted internal control deficiencies in several processes including journal entry review processes; procurement and financial management system reconciliations; and intra-governmental payment and collection expense review and approval. These deficiencies are not considered significant and were not required to be reported in the *Independent Auditors' Report on DHS' FY 2016 Financial Statements and Internal Control over Financial Reporting*, dated November 14, 2016, included in the DHS FY 2016 *Agency Financial Report*.



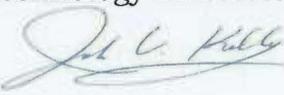
OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

June 26, 2017

MEMORANDUM FOR: Carol Cribbs
Director of Finance and Budget Division
Science and Technology Directorate

FROM: John V. Kelly 
Deputy Inspector General

SUBJECT: *Science and Technology Directorate's' Management
Letter for DHS' Fiscal Year 2016 Financial Statements
Audit*

Attached for your information is our final report, *Science and Technology Directorate's Management Letter for DHS' Fiscal Year 2016 Financial Statements Audit*. This report contains three observations related to internal control deficiencies that were not required to be reported in our *Independent Auditors' Report on DHS' FY 2016 Financial Statements and Internal Control over Financial Reporting*, dated November 14, 2016, which was included in the Department of Homeland Security's (DHS) fiscal year (FY) 2016 *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 2016 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 8, 2016

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:

We planned and performed our audit of the consolidated financial statements (hereinafter referred to as the "financial statements") of the U.S. Department of Homeland Security (DHS or Department), as of and for the year ended September 30, 2016, 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. 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 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 standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the internal control requirements included in OMB Bulletin No. 15-02.

During our audits we noted certain matters involving the Science and Technology Directorate's (S&T) internal control and other operational matters 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 observations and recommendations are summarized in Exhibit I of this letter and are not considered significant deficiencies or material weaknesses in internal control over financial reporting. Significant deficiencies and material weaknesses in internal control over financial reporting have been previously communicated to the DHS Office of Inspector General (OIG) and management in our *Independent Auditors' Report*, dated November 14, 2016, included in the fiscal year 2016 DHS *Agency Financial Report*.

Deficiencies related to S&T information technology (IT) controls will be 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 should 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, 2016

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

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FMC 16-03	Untimely Intra-governmental Payment and Collection Expense Approval and Review	2

APPENDIX

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FMC 16-01 – Journal Entry Review Process (NFR No. S&T 16-01)

S&T did not design and implement controls to effectively monitor the work its service provider performed related to Financial Reporting. Specifically, with the exception of journal entries related to property, journal entries posted by the service provider were not reviewed after posting to ensure accurate recording to the general ledger.

Recommendation:

S&T should:

- Continue to receive a detailed listing of all journal vouchers Immigration and Customs Enforcement (ICE) Office of Financial Management performs on behalf of S&T.
- Continue to review and approve general journal entries related to property and elimination reconciliations over the determined materiality thresholds.
- Document its completion and review of the general journal checklist prior to the Chief Financial Officer (CFO) monthly certification.

FMC 16-02 – Procurement Information System for Management (PRISM) to Federal Financial Management System (FFMS) Reconciliation (NFR No. S&T 16-02)

Controls were not fully implemented to ensure that obligations awarded in PRISM, the procurement system of record, were posted timely to the financial system of record, FFMS. Specifically, we noted that there were unreconciled items that we were unable to determine the action taken on the specific awards items or if the awards items were reconciled during the reconciliation process based on the information included in the final reconciliation.

Recommendation:

S&T should:

- Work to further simplify the process for independent review purposes.
- Notate the status for all documents so all stakeholders can follow the process.

FMC 16-03 – Untimely Intra-Governmental Payment and Collections (IPAC) Expense Approval and Review (NFR No. S&T 16-04)

S&T did not fully implement controls to ensure its Contracting Officer Representatives (CORs) timely complete post review of IPACs. Per the S&T IPAC Processing Finance Budget Division Financial Manual, IPACs not reviewed and approved by the COR within 30 days are automatically moved to a “complete” status. In our sample of 40 invoices we noted 17 instances where no post payment review was performed within the 30 day timeframe.

Science and Technology Directorate
Financial Management Comments and Recommendations
September 30, 2016

Recommendation:

S&T should continue periodic follow-up on all outstanding IPAC post certifications until feedback is received from the COR or Department head responsible for the project.

Science and Technology Directorate
 Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2016

NFR No.	Description	Disposition ¹			FMC No.
		IAR			
		MW	SD	NC	
16-01	Journal Entry Review Process				16-01
16-02	Procurement Information System for Management to Federal Financial Management System Reconciliation				16-02
16-03	Ineffective Obligation Analysis	B			
16-04	Untimely Intra-governmental Payment and Collection Expense Approval and Review				16-03
16-05	Impact of General Information Technology Control Failures on Application Controls and System Generated Information Produced by the Entity	B			

¹Disposition Legend:

IAR	Independent Auditors' Report dated November 14, 2016
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	Information Technology Controls and Financial System Functionality
B	Financial Reporting
C	Property, Plant, and Equipment
D	Entity-Level Controls
E	Grants Management
F	Custodial Revenue and Refunds and Drawback
G	<i>Federal Managers' Financial Integrity Act of 1982</i>
H	<i>Single Audit Act Amendments of 1996</i>
I	<i>Antideficiency Act, as amended</i>
J	<i>Federal Financial Management Improvement Act of 1996</i>



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B
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