

OFFICE OF INSPECTOR GENERAL

**National Protection and
Programs Directorate's
Management Letter for
DHS' Fiscal Year 2016
Financial Statements
Audit**



Homeland
Security

July 3, 2017
OIG-17-92



DHS OIG HIGHLIGHTS

National Protection and Programs Directorate's Management Letter for DHS' Fiscal Year 2016 Financial Statements Audit

July 3, 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 National Protection and Programs 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 National Protection and Programs Directorate's (NPPD) financial statements and internal control over financial reporting for FY 2016. The resulting management letter contains 14 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 revenue accrual, personnel actions, journal entry reviews, performance reviews, contract expense approvals, time keeping, and intra-governmental payment and collection expense approvals. 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

July 3, 2017

MEMORANDUM FOR: David Hill
Chief Financial Officer
National Protection and Programs Directorate

FROM: John V. Kelly 
Deputy Inspector General

SUBJECT: *National Protection and Programs Directorate's
Management Letter for DHS' Fiscal Year 2016 Financial
Statements Audit*

Attached for your information is our final report, *National Protection and Programs Directorate's Management Letter for DHS' Fiscal Year 2016 Financial Statements Audit*. This report contains 14 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, National Protection and Programs 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 National Protection and Programs Directorate (NPPD) 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 NPPD information technology (IT) controls will be presented in a separate letter to the DHS Office of Inspector General, NPPD Chief Information Officer, and NPPD 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 NPPD'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

National Protection and Programs Directorate
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 September 30, 2016

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National Protection and Programs Directorate
Financial Management Comments and Recommendations
September 30, 2016

FMC 16-01 – Revenue Accrual (NFR No. NPPD 16-01)

NPPD’s revenue accrual methodology did not take into account base contracts that have not undergone quality assurance review by the end of the reporting period. Specifically, we reviewed the February 2016 revenue accrual and noted it did not include four agreements that had not undergone quality assurance review.

Recommendation:

The Federal Protective Service and U.S. Immigration and Customs Enforcement should implement a system change in the financial system of record that allows them to rely on reports from the financial system of record for the quality assurance flag. This change, in conjunction with the Federal Protective Service’s allocation practices, should strengthen controls to prevent the obligation of funds prior to the document being picked up in the revenue accrual process and prevent the condition as noted above from occurring in the future.

FMC 16-02 – Approval of Personnel Actions (NFR No. NPPD 16-02)

NPPD lacked approved policies and procedures to document the supervisory review performed to verify that employee data processed for personnel actions was accurately entered into EmpowHR system prior to submission to the National Finance Center (NFC). Furthermore, the NPPD instance of NFC’s EmpowHR system did not have the functionality to electronically document this review within the system.

Recommendation:

NPPD should work with the NFC and others as needed to draft policies and procedures relating to supervisory review of personnel actions, including electronic reviews.

FMC 16-03 – Federal Financial Management System (FFMS) to Procurement Information System for Management (PRISM) Reconciliation (NFR No. NPPD 16-03)

NPPD did not fully implement controls to ensure that contracts awarded in PRISM, the procurement system of record, were posted timely as obligations in the financial system of record, FFMS. During the FY 2015 audit, we noted there were unreconciled items that we were unable to determine the action taken or if the items were reconciled during the reconciliation process based on the information included in the final reconciliation. We noted the prior year condition was not remediated in FY 2016.

Recommendation:

NPPD should perform a reconciliation between the procurement system and the financial system of record on a consistent, recurring basis to ensure that all contract awards made within the procurement system are captured in the financial system in a complete and accurate manner.

FMC 16-04 – Journal Entry Review Process (NFR No. NPPD 16-04)

During the FY 2015 financial statement audit, we identified that controls were not appropriately designed to ensure completeness of the journal entry population prior to the application of the journal entry review sampling methodology. As a result of ongoing refinements to its internal remediation process, NPPD did not complete remediation activities over the prior year deficiency during FY 2016. Consequently, we were unable to test the journal entry review process in FY 2016.

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Recommendation:

NPPD should review current policies and procedures and work with its service provider to obtain an understanding of their review and risk areas to develop and improve on NPPD's control activities related to the review of journal entries.

FMC 16-05 – Time and Attendance Approval (NFR No. NPPD 16-05)

NPPD employees and supervisors did not consistently follow its policies and procedures related to the time sheet approval process. We tested 40 time sheet samples and identified the following:

- Fourteen instances in which overtime and compensatory time earned were not approved timely, and documentation evidencing approval was not appropriately maintained.
- One instance in which the supervisor reviewed and approved the timesheet prior to the end of the pay period, and hours were recorded subsequent to the supervisor review.

Recommendation:

NPPD should reinforce existing policies and procedures relating to time sheet approval.

FMC 16-06 – Internal Control Board Meetings (NFR No. NPPD 16-07)

The Internal Control Board (ICB) meetings were not fully effective in the facilitation of remediation activities. Specifically, we noted the control deficiencies identified throughout the processes at NPPD were communicated and discussed at ICB board meetings; however, there was no evidence of oversight and action items related to remediation.

Recommendation:

The NPPD ICB, and supporting Internal Control Advisory Board (ICAB), should revisit the charter, to include membership, to ensure that the appropriate personnel are representing their component to allow remediation efforts to occur in a timely manner across the Directorate. Leadership must empower NPPD advisors to speak on behalf of their components and be knowledgeable to provide feasible and productive plans of action. The ICB should vote on the proposed solutions from the ICAB and support the solutions through the removal of obstacles or hindrance of proposed actions.

FMC 16-07 – Organizational Structure (NFR No. NPPD 16-08)

NPPD is a decentralized organization with various subcomponents that make-up the overall organization. The subcomponents act separately from one another and have their own controls and processes in place which present inconsistencies across the organization.

Recommendation:

NPPD should:

- Evaluate across the inventory of standard operating procedures and identify where discrepancies in procedures exist.

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- Establish a singular process for transactions despite operating in three varying instances of the financial management system.
- Explore establishing a group to perform ongoing evaluations of the standard operating procedures and move towards drafting a singular process across the Directorate.

FMC 16-08 – Contract Expense Approval (NFR No. NPPD 16-10)

Controls were not operating effectively to ensure that the Contracting Officer reviews and approves invoices prior to the expense being recorded into the general ledger. Specifically, we identified two instances in which there was no evidence of Contracting Officer approval.

Controls were not operating effectively to ensure that expense transactions were recorded in the general ledger timely. Specifically, we noted the following:

- One out of 40 instances in which the Contracting Officer approval of the invoice was untimely.
- One out of 40 instances in which there was a delay between the date the Contracting Officer approved the invoice and the date the general ledger receiving ticket was completed.

Recommendation:

NPPD should:

- Ensure that Contracting Officers are aware of the requirements for processing invoice payments and rejections.
- Emphasize the requirements, as they pertain to both policy (document retention) as well as timeliness of processing transactions.

FMC 16-09 – Intra-Governmental Payment and Collections (IPAC) Expense Approval (NFR No. NPPD 16-11)

Controls were not operating effectively to ensure that the appropriate obligating documentation was used related to a service provided by the General Services Administration. Specifically, we noted one out of 40 instances in which the incorrect documentation was used as the obligating document for a service related to the General Services Administration.

Controls were not operating effectively to ensure that IPAC expense transactions were recorded in the general ledger timely. Specifically, we noted five out of 40 instances in which the Contracting Officer Representative's approval was untimely.

Controls were not operating effectively to ensure that funding was available at the time services were performed and at the IPAC accomplished date. As a result, the expenses were not recorded in the general ledger until a future period. Specifically, we noted the following:

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- Two out of 40 instances in which the expense was incurred in FY 2015; however, the expense was not recorded until FY 2016, which resulted in an out of period expense.
- One out of 40 instances in which the expense was incurred in February 2016; however, the expense was not recorded until June 2016.

Management was unable to provide complete supporting documentation related to four out of 40 instances.

Recommendation:

NPPD should revisit its processing procedures, including appropriate roles and responsibilities and documentation requirements, to appropriately design and implement internal controls and guidance for the vast number of Contracting Officer Representatives and Technical Points of Contact.

FMC 16-10 – Untimely Federal Protective Service Recurring Security Work Authorization Setup within General Ledger (NFR No. NPPD 16-12)

Controls were not operating effectively to ensure recurring Security Work Authorizations were setup in the general ledger timely. Specifically, we noted five out of 45 instances in which the Federal Protective Service did not send the finalized Security Work Authorization to Financial Operations-Burlington timely and as a result the quality assessment process was delayed.

Recommendation:

NPPD's Federal Protective Service should:

- Enhance its existing process to monitor the timeliness of general ledger entries relating to Security Work Authorizations.
- Create a process to work with its regional and headquarter staff to provide additional oversight on Security Work Authorization processing at the servicing finance center.
- Follow up on a monthly basis with both regions and the financial service providers on all Security Work Authorizations.
- Review its existing processes to determine additional areas for improvement to strengthen internal controls.

FMC 16-11 – Performance Assessments (NFR No. NPPD 16-14)

Controls were not appropriately implemented to ensure the performance review process functioned as designed. Specifically, during our inspection of documentation for the employee review process we identified the following:

- Management was unable to provide documentation related to the following:
 - Three out of 45 instances in which the performance work plan was not provided.
 - Sixteen out of 45 instances in which the first quarter review was not provided.

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- Ten out of 45 instances in which the mid-year review was not provided.
- Fourteen out of 45 instances in which the third quarter review was not provided.

- Nineteen out of 45 instances in which the performance work plan was not completed and signed timely (within 30 days of September 30th).

- Three out of 45 instances in which the first quarter review was not completed and signed timely (within 30 days of January 4th).

- One out of 45 instances in which the performance plan was completed and signed; however, there was no evidence of the date the plan was signed.

Recommendation:

NPPD should implement electronic performance management capabilities which allow for case tracking and workflow to streamline performance management functions.

FMC 16-12 – ELC-Position Descriptions (NFR No. NPPD 16-16)

Controls were not appropriately implemented to ensure that the occurrence of the position description review process was appropriately evidenced. Specifically, we noted the following:

- 23 out of 45 instances in which the manager who initiated the position description did not sign-off on the Office of Personnel Management (OPM) *Position Description* form (Optional Form (OF)-8).

- One out of 45 instances in which the Human Capital specialist who reviewed the position description did not sign-off on the OF-8.

- Four out of 45 instances in which management was unable to provide the documentation used to verify the position description factors.

- One out of 45 instances in which management was unable to provide the position description reviewed.

Recommendation:

NPPD should adapt a workflow to ensure completion of the OF-8 and adherence to OPM and DHS classification policies and practices.

FMC 16-13 – Accounts Payable Lookback Analysis (NFR No. NPPD 16-17)

Controls were not designed appropriately to ensure the accounts payable lookback analysis appropriately assessed the historical accuracy of the accounts payable accrual. Specifically, we noted the percentage variance per the lookback analysis was calculated as (dollar variance / accrual amount); however, we noted that the percentage variance should have been calculated as (dollar variance / actual amount).

Recommendation:

NPPD should work, in conjunction with its service provider, to ensure the proper levels of oversight exist over the lookback analysis.

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FMC 16-14 – Accounting for Continuous Diagnostics and Mitigation Program Costs (NFR No. NPPD 16-18)

Controls were not designed and implemented to ensure proper tracking of which agencies (either intra-DHS or inter-departmental) assets were procured on behalf of. Additionally, controls were not designed and implemented to ensure that those agencies were notified timely. We noted a delay between when NPPD procured and expensed the equipment/software in development and the notification of imputed costs to the receiving agency. Specifically, out of a sample of ten transactions, we noted two instances where NPPD was unable to identify agencies for which it procured an item. For one of these samples, NPPD expensed the item on April 28, 2015 and the other sample on May 5, 2016, but the receiving agencies have not yet been notified of their portion of the expense.

Recommendation:

NPPD should:

- Design an internal process and communication plan with the General Services Administration to better track the hardware and software purchased with NPPD appropriations for other federal entities.
- Recognize the appropriate classification and the timeliness of the transactions to accurately reflect the transactions in the financial statements.

National Protection and Programs Directorate
Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2016

NFR No.	Description	Disposition ¹			FMC No.
		IAR			
		MW	SD	NC	
16-01	Revenue Accrual				16-01
16-02	Approval of Personnel Actions				16-02
16-03	Federal Financial Management System to Procurement Information System for Management Reconciliation				16-03
16-04	Journal Entry Review Process				16-04
16-05	Time and Attendance Approval				16-05
16-06	Undelivered Orders	B			
16-07	Internal Control Board Meetings				16-06
16-08	Organizational Structure				16-07
16-09	Impact of General Information Technology Control Failures on Application Controls and System Generated Information Produced by the Entity	B			
16-10	Contract Expense Approval				16-08
16-11	Intra-governmental Payment and Collection Expense Approval				16-09
16-12	Untimely Federal Protective Service Recurring Security Work Authorization Setup within the General Ledger				16-10
16-13	Undelivered Order Analysis	B			
16-14	Performance Assessments				16-11
16-15	Accounting for Property, Plant, and Equipment	C			
16-16	Entity Level Control-Position Descriptions				16-12
16-17	Accounts Payable Lookback Analysis				16-13
16-18	Accounting for Continuous Diagnostics Monitoring Program Costs				16-14

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 *Federal Managers' Financial Integrity Act of 1982*H *Single Audit Act Amendments of 1996*I *Antideficiency Act, as amended*J *Federal Financial Management Improvement Act of 1996*



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B
Report Distribution

Department of Homeland Security

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