

OFFICE OF INSPECTOR GENERAL

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



Homeland
Security

**July 7, 2017
OIG-17-96**



DHS OIG HIGHLIGHTS

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

July 7, 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 Management 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 Management Directorate's financial statements and internal control over financial reporting for FY 2016. The resulting management letter contains five observations related to internal control and other operational matters which are presented in this report. KPMG noted internal control deficiencies in several processes including journal entry review; financial system reconciliations; ineffective obligation analysis; contract expense approval, improper invoice posting; and intra-governmental payment and collection expense 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

July 7, 2017

MEMORANDUM FOR: Stacy Marcott
Acting Chief Financial Officer
Management Directorate

FROM: John V. Kelly 
Deputy Inspector General

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

Attached for your information is our final report, *Management Directorate's Management Letter for DHS' Fiscal Year 2016 Financial Statements Audit*. This report contains five 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) 2016 financial statements and internal control over financial reporting. Other internal control deficiencies were reported, as required, in the *Independent Auditors' Report*, dated November 14, 2016, which was included in the DHS 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 DHS. 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, at (202) 254-4100.

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, Management 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 Management Directorate's (MGMT) 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*.

Our findings related to MGMT information technology systems have been presented in a separate letter to the DHS Office of Inspector General, MGMT Chief Information Officer, and MGMT 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 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

Management Directorate
Table of Financial Management Comments
September 30, 2016

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Management Directorate
Financial Management Comments and Recommendations
September 30, 2016

FMC 16-01 – Journal Entry Review Process (NFR No. MGMT 16-01)

MGMT did not properly design controls to ensure an appropriate review of journal entries posted by the service provider. Specifically, we identified the following:

- During the review of journal entries, MGMT Financial Operations reviewed the journal entry for reasonableness; however, the specific attributes assessed to determine whether an entry was reasonable were not defined and documented.
- The Journal Voucher Review Checklist questions were not sufficient to identify all high risk entries for review.
- Journal Entries were not reviewed in a timely manner. We noted that MGMT did not review the sample entry reviewed for our test of design until six months after it was recorded by the service provider.

Recommendation:

MGMT should review existing procedures to ensure attributes are clearly defined, review the Journal Voucher Checklist to ensure logical steps are identified, and ensure that the review of journal entries occurs timely.

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

MGMT did not fully implement controls to ensure that all obligations awarded in PRISM, the procurement system of record, were posted timely as obligations in the financial system of record, FFMS. Specifically, we noted that the reconciliation did not compare all data between the procurement system and the financial system of record as items were inappropriately excluded from the reconciliation.

Recommendation:

MGMT should ensure all reconciling items between FFMS and PRISM are identified and included in the reconciliation process.

FMC 16-03 – Ineffective Obligation Analysis (NFR No. MGMT 16-03)

Controls were not operating effectively to ensure that a sufficient review was performed over undelivered order balances to verify that the appropriate status was assigned during the quarterly undelivered order analysis. Specifically, we noted one contract out of a sample of 46 that had an expired period of performance and no current year activity which was improperly assigned a status 1 when the contract was identified for close-out.

Recommendation:

MGMT should ensure that a sufficient review is performed on undelivered order balances to verify that the appropriate status is assigned during the quarterly undelivered order analysis.

Management Directorate
Financial Management Comments and Recommendations
September 30, 2016

FMC 16-04 – Untimely Contract Expense Approval and Improper Invoice Posting (NFR No. MGMT 16-04)

Controls were not operating effectively to ensure that expense transactions were appropriately reviewed and recorded to the general ledger in a timely manner. Specifically, we identified the following:

- Three instances in our sample of 40 invoices selected for control testwork in which the recording of the receiving ticket and expense within the general ledger was not timely (greater than 30 days).
- One instance in our sample of nine invoices selected for substantive testwork in which the entire invoice was expensed during FY 2016; however the period of performance spanned FYs 2016 and 2017. A portion of the expense should have been recorded as a prepaid asset.

Recommendation:

MGMT should:

- Ensure that expense transactions are appropriately reviewed and recorded to the general ledger timely.
- Ensure that prepaid expenses are properly recorded as prepaid assets.

FMC 16-05 – Untimely Intra-Governmental Payment and Collection (IPAC) Expense Approval (NFR No. MGMT 16-05)

Controls were not operating effectively to ensure that IPACs were reviewed and posted to the general ledger within 30 days. Specifically, we identified nine instances in our sample of 40 IPACs where IPAC expenditures were not posted to the general ledger timely.

Controls were not operating effectively to ensure adequate funding existed to cover the posting of an expense related to an IPAC. Specifically, we noted one instance in which the IPAC amount exceeded the amount obligated in the general ledger. The IPAC was recorded in the general ledger which resulted in an automatic upward adjustment to the obligation.

Recommendation:

MGMT should ensure IPACs are reviewed and posted to the general ledger timely, and that there is adequate funding to cover the posting of IPAC-related expenses.

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

NFR No.	Description	Disposition ¹				FMC No.
		IAR			FMC	
		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				16-03	
16-04	Untimely Contract Expense Approval and Improper Invoice Posting				16-04	
16-05	Untimely Intra-governmental Payment and Collection Expense Approval				16-05	
16-06	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 *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
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