

# Department of Homeland Security **Office of Inspector General**

National Protection and Programs Directorate's  
Management Letter for FY 2012 DHS Consolidated  
Financial Statements Audit





**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

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

APR 5 2013

MEMORANDUM FOR: Michael Butcher  
Director of Management  
National Protection and Programs Directorate

FROM: Anne L. Richards   
Assistant Inspector General for Audits

SUBJECT: *National Protection and Programs Directorate's  
Management Letter for FY 2012 DHS Consolidated  
Financial Statements Audit*

Attached for your information is our final report, *National Protection and Programs Directorate's Management Letter for FY 2012 DHS Consolidated Financial Statements Audit*. This report contains observations related to internal control deficiencies that were not required to be reported in the *Independent Auditors' Report on DHS' FY 2012 Financial Statements and Internal Control over Financial Reporting*. Internal control deficiencies that are considered significant deficiencies were reported, as required, in the *Independent Auditors' Report*, dated November 14, 2012, which was included in the DHS fiscal year (FY) 2012 *Annual 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 2012 financial statements and is responsible for the attached management letter dated March 12, 2013, and conclusions expressed in it. We do not express opinions on DHS' financial statements or internal control, nor do we provide conclusions on compliance with laws and regulations.

Please call me with any questions, or your staff may contact Mark Bell, Deputy Assistant Inspector General for Audits, at (202) 254-4100.

Attachment



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

March 12, 2013

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 have audited the balance sheet of the U.S. Department of Homeland Security (DHS or Department) as of September 30, 2012 and the related statements of net cost, changes in net position and custodial activity, and combined statement of budgetary resources for the year then ended (referred to herein as the “fiscal year (FY) 2012 financial statements”). The objective of our audit was to express an opinion on the fair presentation of these financial statements. We were also engaged to examine the Department’s internal control over financial reporting of the FY 2012 financial statements, based on the criteria established in Office of Management and Budget (OMB), Circular No. A-123, *Management’s Responsibility for Internal Control*, Appendix A.

Our *Independent Auditors’ Report*, issued on November 14, 2012, describes a limitation on the scope of our audit that prevented us from performing all procedures necessary to express an unqualified opinion on the DHS’ FY 2012 financial statements and internal control over financial reporting. In addition, the FY 2012 DHS *Secretary’s Assurance Statement* states that the Department was able to provide qualified assurance that internal control over financial reporting was operating effectively at September 30, 2012. We have not considered internal control since the date of our *Independent Auditors’ Report*.

In accordance with *Government Auditing Standards*, our *Independent Auditors’ Report*, referred to in the paragraph above, included internal control deficiencies identified during our audit, that individually, or in aggregate, represented a material weakness or a significant deficiency.

The National Protection and Programs Directorate (NPPD) is a component of DHS. We noted certain matters, related to NPPD, that are summarized in the Table of Financial Management Comments on the following pages, involving internal control and other operational matters that are less severe than a material weakness or a significant deficiency, and consequently are reported separately to the Office of Inspector General (OIG) and NPPD management in this letter. 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. The disposition of each internal control deficiency identified during our FY 2012 audit – as either reported in our *Independent Auditors’ Report*, or herein – is presented in Appendix A. The status of internal control deficiencies identified during our FY 2011 audit is presented in Appendix B.

We would be pleased to discuss these comments and recommendations with you at any time. This report is intended for the information and use of the DHS’ and NPPD’s management, the DHS OIG, the U.S. OMB, the U.S. Congress, and the Government Accountability Office, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**

National Protection and Programs Directorate  
*Table of Financial Management Comments*  
September 30, 2012

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

<b>Comment Reference</b>	<b>Subject</b>	<b>Page</b>
FMC 12-01	Inadequate Purchase Request Information System (PRISM) to Federal Financial Management System (FFMS) Reconciliation	2
FMC 12-02	Federal Protective Services (FPS) Accounts Receivable Allowance	2
FMC 12-03	Unfilled Customer Orders (UCOs) Not Recorded for Recurring Security Agreements	2
FMC 12-04	FPS Headquarters Security Billing Review	3
FMC 12-05	Untimely De-obligation of Undelivered Order (UDO) Balances	3
FMC 12-06	Accounts Payable Estimate Methodology	3

**APPENDIX**

<b>Appendix</b>	<b>Subject</b>	<b>Page</b>
A	Crosswalk – Financial Management Comments to Active Notices of Finding and Recommendation (NFRs)	5
B	Status of Prior Year NFRs	6

**FMC 12-01 – Inadequate Purchase Request Information System (PRISM) to Federal Financial Management System (FFMS) Reconciliation (NFR No. NPPD 12-01)**

National Protection and Programs Directorate (NPPD) uses PRISM – a procurement module outside of FFMS – to initiate obligations. Since PRISM does not interface with the general ledger (GL) system, FFMS, NPPD financial management personnel manually record obligations from PRISM into FFMS.

During our test of design and implementation of NPPD’s FFMS to PRISM reconciliation, we noted that policies and procedures are in place for the reconciliation process; however, NPPD did not perform the reconciliation with a regular frequency during fiscal year (FY) 2012. As of the date of our walkthrough with NPPD on July 19, 2012, the FFMS to PRISM reconciliation was last performed in January 2012.

*Recommendation:*

We recommend that NPPD perform the FFMS to PRISM reconciliation with regular frequency.

**FMC 12-02 – Federal Protective Services (FPS) Accounts Receivable Allowance (NFR No. NPPD 12-03)**

FPS is responsible for security of government facilities. Through different methods, FPS bills customers every month for their portion of the security cost. When a payment is not received, an accounts receivable balance is recorded in the GL and a review takes place to identify and attempt to collect on these charges.

During our walkthrough over the March 31, 2012, accounts receivable review process, we noted the following:

- Approximately 25 percent of the FPS Accounts Receivable balance, primarily Federal, was over 180 days uncollected.
- Open accounts receivable balances ranged from 1 day to 2,298 days uncollected.
- FPS does not have policies and procedures in place to identify, review, and resolve uncollected amounts related to Federal accounts receivable.

*Recommendation:*

We recommend that NPPD implement policies and procedures to identify, review, and resolve uncollected amounts related to Federal accounts receivable.

**FMC 12-03 – Unfilled Customer Orders (UCOs) Not Recorded for Recurring Security Agreements (NFR No. NPPD 12-05)**

NPPD FPS does not record UCOs for recurring agreements because these types of agreements are performed within the span of the fiscal year (i.e. annual agreements) and are billed on a 1/12<sup>th</sup> basis whereby 1/12<sup>th</sup> of the total agreement amount is billed each month.

*Recommendation:*

We recommend that NPPD record and track unfilled customer orders for all security work agreements.

**FMC 12-04 – FPS Headquarters Security Billing Review (NFR No. NPPD 12-06)**

During our walkthrough over the review of the FPS headquarters security billings file, we noted that the current review process is not properly designed to identify and correct misstatements of inaccurate billings.

During our testwork over a sample of 19 security revenue transactions, we identified five exceptions. Five FY 2012 sample amounts contained transactions related to FY 2011 revenue adjustments. While preparing and reviewing the monthly security charges, these amounts were not properly excluded from FY 2012 revenue. Specifically, three of the five sample amounts related to an increase in revenue, while the other two sample amounts related to a decrease in revenue.

*Recommendation:*

We recommend that NPPD FPS strengthen its current procedures or develop and implement new procedures to apply billing adjustments to revenue balances in the proper period.

**FMC 12-05 – Untimely De-obligation of Undelivered Order (UDO) Balances (NFR No. NPPD 12-07)**

NPPD lacks effective controls over the verification and validation of UDOs which resulted in substantive errors. The verification and validation reviews performed by the financial managers indicate reliance on responses from field office personnel to determine the validity of open obligations which at times are inaccurate, do not indicate a rigorous review of the open obligations, or do not contain sufficient information for the financial managers to make an informed decision about the balance.

We selected a statistical sample of 40 items from the population of UDOs as of September 30, 2012. Based on our review, we noted that for 3 of the 40 UDOs tested, the contract/agreement POP had ended and the contract/agreement was no longer valid; however, the unused balances had not been properly de-obligated.

*Recommendations:*

We recommend that NPPD:

- Strengthen its verification and validation review of UDOs to adequately consider whether balances should be de-obligated.
- Improve communication between financial management and field office personnel during the review so that the final determination for each UDO balance is clearly documented.

**FMC 12-06 – Accounts Payable Estimate Methodology (NFR No. NPPD 12-12)**

NPPD's accounts payable estimation review – as performed by its service provider, Immigration and Customs Enforcement (ICE) Office of Financial Management (OFM) – is not designed effectively to ensure that the estimate is accurately recorded. Specifically, we noted during FY 2012 that ICE OFM was limiting the accounts payable estimate in certain budget object classifications and Program Codes to the total amounts that were obligated according to the obligation balances in those specific combinations. This limitation reduces the estimate amount

National Protection and Programs Directorate  
*Financial Management Comments*  
September 30, 2012

---

without consideration for whether the reduction is necessary or meaningful to the estimate on the whole.

*Recommendation:*

We recommend that NPPD and ICE OFM further refine the accrual process to determine and accrue for the highest allowable attribute posting in FFMS so that an adequate accounts payable accrual is recorded each month.

National Protection and Programs Directorate  
 Crosswalk – Financial Management Comments to Active NFRs  
 September 30, 2012

NFR No.	Description	Disposition <sup>1</sup>			
		IAR			FMC
		MW	SD	NC	No.
12-01	Inadequate Purchase Request Information System (PRISM) to Federal Financial Management System (FFMS) reconciliation				12-01
12-02	Inadequate review and write down of Risk Assessment and Management Program		F		
12-03	Federal Protective Services (FPS) Accounts Receivable Allowance				12-02
12-04	<i>Number not used</i>	Not applicable			
12-05	Unfilled Customer Orders (UCOs) Not Recorded for Recurring Security Agreements				12-03
12-06	FPS Headquarters Security Billing Review				12-04
12-07	Untimely de-obligation of Undelivered Order (UDO) balances				12-05
12-08	Potential violation of the Anti-deficiency Act (ADA)			L	
12-09	<i>Number not used</i>	Not applicable			
12-10	<i>Number not used</i>	Not applicable			
12-11	Entity Level Controls (ELCs)		F		
12-12	Accounts Payable Estimate Methodology				12-06
12-13	Property Plant and Equipment (PP&E) Held at Other Agency Not Timely Recorded		F		

<sup>1</sup>Disposition Legend:

IAR	Independent Auditors' Report dated November 14, 2012
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 System Functionality
C	Property, Plant, and Equipment
D	Environmental and Other Liabilities
E	Budgetary Accounting
F	Entity-Level Controls
G	Grants Management
H	Custodial Revenue and Drawback
I	<i>Federal Managers' Financial Integrity Act of 1982 (FMFIA)</i>
J	<i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i>
K	<i>Single Audit Act Amendments of 1996</i>
L	<i>Antideficiency Act, as amended (ADA)</i>

National Protection and Programs Directorate  
*Status of Prior Year NFRs*  
 September 30, 2012

NFR No.	Description	Disposition <sup>1</sup>	
		Closed <sup>2</sup>	Repeat (2011 NFR No.)
11-01	Inadequate Internal Controls over Reporting of Government Furnished Equipment Asset Disposals	X	
11-02	Subject to Availability of Funding Agreements Not Obligated in Federal Financial Management System (FFMS) at Outset of Agreement	X	
11-03	Potential Antideficiency Act (ADA) Violation		NPPD-12-08
11-04	Inadequate Internal Controls over Reporting of Internal Use Software (IUS) Projects	X	
11-05	Inadequate Internal Controls over Reporting of Equipment		NPPD-12-13
11-06	Untimely Reporting of Leasehold Improvements	X	

<sup>1</sup> KPMG was engaged to perform an audit over the DHS balance sheet as of September 30, 2012, and the related statements of net cost, changes in net position and custodial activity, and combined statement of budgetary resources for the year then ended. In addition, we were engaged to follow up on the status of all active NFRs that supported significant deficiencies reported in our FY 2011 *Independent Auditors' Report*.

<sup>2</sup> The scope of our audit was limited to follow-up on NFRs that supported a material weakness or significant deficiency as reported in our *Independent Auditors' Report*. All other NFRs, e.g., that described insignificant findings, and therefore presented to DHS management as observations for consideration, were considered closed.



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

---

**Appendix C**  
**Report Distribution**

**Department of Homeland Security**

Secretary  
Deputy Secretary  
Chief of Staff  
Deputy Chief of Staff  
General Counsel  
Executive Secretary  
Director, GAO/OIG Liaison Office  
Assistant Secretary for Office of Policy  
Assistant Secretary for Office of Public Affairs  
Assistant Secretary for Office of Legislative Affairs  
Acting Chief Privacy Officer

**National Protection and Programs Directorate**

Under Secretary  
Director of Management  
Liaison

**U.S. Immigration and Customs Enforcement**

Chief Financial Officer  
Liaison

**Office of Management and Budget**

Chief, Homeland Security Branch  
DHS OIG Budget Examiner

**Congress**

Congressional Oversight and Appropriations Committees, as appropriate

## ADDITIONAL INFORMATION AND COPIES

To obtain additional copies of this document, please call us at (202) 254-4100, fax your request to (202) 254-4305, or e-mail your request to our Office of Inspector General (OIG) Office of Public Affairs at: [DHS-OIG.OfficePublicAffairs@oig.dhs.gov](mailto:DHS-OIG.OfficePublicAffairs@oig.dhs.gov).

For additional information, visit our website at: [www.oig.dhs.gov](http://www.oig.dhs.gov), or follow us on Twitter at: [@dhsoig](https://twitter.com/dhsoig).

## OIG HOTLINE

To expedite the reporting of alleged fraud, waste, abuse or mismanagement, or any other kinds of criminal or noncriminal misconduct relative to Department of Homeland Security (DHS) programs and operations, please visit our website at [www.oig.dhs.gov](http://www.oig.dhs.gov) and click on the red tab titled "Hotline" to report. You will be directed to complete and submit an automated DHS OIG Investigative Referral Submission Form. Submission through our website ensures that your complaint will be promptly received and reviewed by DHS OIG.

Should you be unable to access our website, you may submit your complaint in writing to: DHS Office of Inspector General, Attention: Office of Investigations Hotline, 245 Murray Drive, SW, Building 410/Mail Stop 2600, Washington, DC, 20528; or you may call 1 (800) 323-8603; or fax it directly to us at (202) 254-4297.

The OIG seeks to protect the identity of each writer and caller.