

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

National Protection and Programs Directorate's Management Letter for FY 2013 DHS Financial Statements Audit





OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

APR 21 2014

MEMORANDUM FOR: Nicole Windham
Budget and Financial Administration
National Protection and Programs Directorate

FROM: *for* Anne L. Richards *Mark Bell*
Assistant Inspector General for Audits

SUBJECT: *National Protection and Programs Directorate's
Management Letter for FY 2013 DHS Financial Statements
Audit*

Attached for your information is our report, *National Protection and Programs Directorate's Management Letter for FY 2013 DHS Financial Statements Audit*. This report contains six comments and six recommendations related to internal control deficiencies that were not required to be reported in the *Independent Auditors' Report on DHS' FY 2013 Financial Statements and Internal Control over Financial Reporting*. Internal control deficiencies which are considered significant deficiencies were reported, as required, in the *Independent Auditors' Report*, dated December 11, 2013, which was included in the Department of Homeland Security's (DHS) fiscal year (FY) 2013 Agency Financial Report. We do not require management's response to the recommendations.

We contracted with the independent public accounting firm KPMG LLP (KPMG) to conduct the audit of the DHS' FY 2013 financial statements and internal control over financial reporting. The contract required that KPMG perform its audit according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG is responsible for the attached management letter dated January 15, 2014, and the conclusions expressed in it.

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

January 15, 2014

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 financial statements of the U.S. Department of Homeland Security (DHS or Department) for the year ended September 30, 2013 (referred to herein as the “fiscal year (FY) 2013 financial statements”), and have issued our report thereon dated December 11, 2013. In planning and performing our audit of the financial statements of DHS, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. In conjunction with our audit of the 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 National Protection and Programs Directorate (NPPD) is a component of DHS. During our audit, we noted certain matters involving internal control and other operational matters, related to NPPD, 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 on the following pages. The disposition of each internal control deficiency identified during our FY 2013 audit – as either reported in our *Independent Auditors’ Report*, or herein – 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, the NPPD Chief Information Officer, and 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 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

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National Protection and Programs Directorate
Financial Management Comments
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FMC 13-01 – Time and Attendance (*Notice of Finding and Recommendation (NFR) No. National Protection and Programs Directorate (NPPD) 13-01*)

The supervisory review controls over employee timesheets was not operating effectively to verify that the hours reflected on the timesheet were accurate. Specifically, we noted one instance in which the employee incorrectly recorded two hours of leave on their timesheet instead of three hours which were approved and taken during the pay period.

Recommendation:

We recommend NPPD develop organization-specific policies and procedures to include detailed reviews of timesheets to ensure time and attendance including leave time is accurately recorded.

FMC 13-02 – Approval of Personnel Actions (*NFR No. NPPD 13-02*)

NPPD lacked appropriate policies and procedures to verify that employee data processed for new hires is accurately entered into EmpowHR prior to submission to the U.S. Department of Agriculture National Finance Center (NFC).

Recommendation:

We recommend that NPPD develop organization-specific policies and procedures to review employee data entered into EmpowHR to ensure the data is complete and accurate prior to processing to NFC.

FMC 13-03 – Review and Approval of Expenses (*Intra-Governmental Payment and Collection*) (*NFR No. NPPD 13-03*)

Controls were not operating effectively to ensure the contracting officer's representative (COR) approval of Intra-Governmental Payment and Collection (IPAC) payments (cash receipts) occurred prior to posting in the general ledger. Specifically, two samples selected as part of the June 30, 2013, expense testwork were posted to Federal Financial Management System without the approval of the COR.

Recommendation:

We recommend that the CORs or technical point of contact be involved in all approvals and rejections of IPAC payments prior to the posting of the transaction into the general ledger. No IPAC transactions should be posted without obtaining the IPAC Payment Authorization Form or email documenting the COR's or technical point of contact's review has occurred.

FMC 13-04 – Personnel File Documentation (*NFR No. NPPD 13-06*)

Controls were not operating effectively to ensure that employee benefits were properly supported by available documentation within the employee personnel files. Specifically, we noted the following:

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Crosswalk - Financial Management Comments to Active NFRs
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- Two instances in which the employee was a transfer to NPPD from another agency and the employee personnel file did not include the Thrift Savings Plan (TSP)-1 form. Further, no evidence was provided to indicate the employee made the TSP election electronically directly in their personnel file (via Employee Personnel Page (EPP)).
- One instance in which the employee was a transfer to NPPD from another agency and the employee personnel file did not include the applicable Federal Employees Health Benefits election form. Further, no evidence was provided to indicate the employee made an election electronically directly in their personnel file (via EPP).

Recommendation:

We recommend that NPPD develop organization-specific policies and procedures over employee transfers to ensure appropriate documentation related to employee benefits is maintained and readily available.

FMC 13-05 – Documentation of Contracting Officer Warrant Authority (NFR No. NPPD 13-14)

Controls were not operating effectively to ensure that a complete listing of contracting officers, including warrant authority, is maintained and updated on a regular basis.

Recommendation:

We recommend having Office of Special Acquisitions maintain a Warranted Contracting Officer list that is updated on a regular basis.

FMC 13-06 – Government Accountability Office Checklist (NFR No. NPPD 13-17)

Controls were not operating effectively to ensure the responses to the Government Accountability Office (GAO) 2010 Checklist are appropriate based on NPPD's operations and financial reporting. Specifically, we noted the following:

- NPPD responded "Y" to a question regarding the use of the Consumption Method for operating materials and supplies (OM&S); however, NPPD uses the Purchase Method for accounting for OM&S.
- NPPD answered "Yes" for non-exchange revenue and receivables when NPPD does not report non-exchange revenue or receivables on the Statement of Changes in Net Position.

Recommendation:

We recommend that NPPD ensure reviews of the GAO 2010 Checklist are performed completely and effectively to identify errors.

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Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
NPPD	13-01	Time and Attendance				13-01
NPPD	13-02	Approval of Personnel Actions				13-02
NPPD	13-03	Review and Approval of Expenses (Intra-Governmental Payment and Collection)				13-03
NPPD	13-04	Ineffective Review of Recoveries	D			
NPPD	13-05	Unbilled Revenue	A			
NPPD	13-06	Personnel File Documentation				13-04
NPPD	13-07	General Property, Plant, and Equipment Controls	A			
NPPD	13-08	Financial Reporting	A			
NPPD	13-09	Undelivered Orders Abnormal Balance	D			
NPPD	13-10	Unfilled Customer Orders	D			
NPPD	13-11	Federal Financial Management System (FFMS) to Prism Reconciliation	D			
NPPD	13-12	Anti-Deficiency Act			L	
NPPD	13-13	Funds Management and Untimely Recording of Obligation Activity to the General Ledger	D			
NPPD	13-14	Documentation of Contracting Officer Warrant Authority				13-05
NPPD	13-15	Untimely Clearing of Fund Balance with Differences per the Department of the Treasury Statement of Differences	A			
NPPD	13-16	General Ledger (FFMS) to Government-Wide Accounting/Central Accounting Reporting System Reconciliation	A			
NPPD	13-17	Government Accountability Office Checklist				13-06
NPPD	13-18	Invoice Receipt	D			
NPPD	13-19	Federal Financial Management Improvement Act of 1996			J	
NPPD	13-20	Entity Level Controls		E		

¹Disposition Legend:

IAR Independent Auditors' Report dated December 11, 2013

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

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Cross-reference to the applicable sections of the IAR:

- A Financial Reporting
- B Information Technology Controls and Financial Systems Functionality
- C Property, Plant, and Equipment
- D Budgetary Accounting
- E Entity-Level Controls
- F Liabilities
- G Grants Management
- H Custodial Revenue and Drawback
- I *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*
- J *Federal Financial Management Improvement Act of 1996 (FFMIA)*
- K *Single Audit Act Amendments of 1996*
- L *Antideficiency Act, as amended (ADA)*



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Appendix A
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ADDITIONAL INFORMATION

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For further information or questions, please contact Office of Inspector General (OIG) Office of Public Affairs at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov, or follow us on Twitter at: [@dhsoig](https://twitter.com/dhsoig).

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Office of Inspector General, Mail Stop 0305
Attention: Office of Investigations Hotline
245 Murray Drive, SW
Washington, DC 20528-0305

You may also call 1(800) 323-8603 or fax the complaint directly to us at (202) 254-4297.

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