

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

Management 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: Stacy Marcott
Deputy Chief Financial Officer
Management Directorate

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

SUBJECT: *Management Directorate's Management Letter for
FY 2013 DHS Financial Statements Audit*

Attached for your information is our final report, *Management Directorate's Management Letter for FY 2013 DHS Financial Statements Audit*. This report contains one comment and one recommendation related to an internal control deficiency that was 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 (DHS) fiscal year (FY) 2013 Agency Financial Report. We do not require management's response to the recommendation.

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, Management 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 Management Directorate (MGT) is a component of DHS. During our audit, we noted certain matters involving internal control and other operational matters, related to MGT, 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 MGT 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 MGT’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

Management Directorate
Table of Financial Management Comments
September 30, 2013

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

Comment Reference	Subject	Page
FMC 13-01	Government Accountability Office Checklist	2

APPENDIX

Appendix	Subject	Page
A	Crosswalk – Financial Management Comments to Active Notices of Finding and Recommendation (NFRs)	3

Management Directorate
Financial Management Comments
September 30, 2013

FMC 13-01 – Government Accountability Office Checklist (*Notice of Finding and Recommendation No. Management Directorate (MGT) 13-07*)

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

- MGT responded "Y" to a question regarding the use of the Consumption Method for operating materials and supplies (OM&S); however, MGT used the Purchase Method for accounting for OM&S.
- MGT did have unearned revenue recorded as a liability for advances and prepayments. As such, the response of "N/A" was not appropriate.
- MGT did have non-exchange revenue recognized on the Statement of Net Position and as such the response of "N/A" was not appropriate.

Recommendation:

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

Management Directorate
 Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2013

Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
MGT	13-01	Time and Attendance	A			
MGT	13-02	Advances and Prepayments	A, D			
MGT	13-03	Undelivered Order Analysis	D			
MGT	13-04	Financial Reporting	A			
MGT	13-05	Funds Management and Untimely Recording of Obligation Activity to the General Ledger	D			
MGT	13-06	Federal Financial Management System to Prism Reconciliation	D			
MGT	13-07	Government Accountability Office Checklist				13-01
MGT	13-08	Inadequate Controls over the Accounting of St. Elizabeths Lease and Related Leasehold Improvements	A			
MGT	13-09	Invoice Receipt	D			
MGT	13-10	Suspense Reconciliation	A			
MGT	13-11	Reconciliation of MGT Undelivered Orders and Unfilled Customer Orders	D			
MGT	13-12	Entity Level Controls		E		
MGT	13-13	Federal Financial Management Improvement Act of 1996			J	

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

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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Should you be unable to access our website, you may submit your complaint in writing to:

Department of Homeland Security
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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