

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

**The Office of Financial Management'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 23 2014

MEMORANDUM FOR: Jeffrey Bobich
Director
Office of Financial Management

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

SUBJECT: *The Office of Financial Management's Management Letter for FY 2013 DHS Financial Statements Audit*

Attached for your information is our final report, *The Office of Financial Management's Management Letter for FY 2013 DHS Financial Statements Audit*. This report contains three comments and eight 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
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 Office of Financial Management (OFM) is part of DHS. During our audit, we noted certain matters involving internal control and other operational matters, related to OFM, 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 DHS 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 DHS’ 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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FMC 13-01 – Departmental Standards of Conduct (*Notice of Finding and Recommendation (NFR) No. Office of Financial Management (OFM) 13-01*)

During our test work over entity-level controls, we noted that DHS had not issued a Supplemental Standards of Conduct. Although not required, the Department, with the concurrence of the Office of Government Ethics, has determined the need for and developed a Supplemental Standards of Ethical Conduct for Employees of the Department of Homeland Security, which was published as a proposed rule in the Federal Register for public comment on October 12, 2011.

The proposed regulations would supplement the Office of Government Ethics (OGE) Standards of Ethical Conduct for Employees of the Executive Branch, and would, among other things, set forth employee restrictions on the purchase of certain Government-owned property, and require employees to report allegations of waste, fraud and abuse. The regulations would require employees to seek prior approval for certain outside employment and activities, and designate components within DHS as a separate agency for purposes of determining whether the donor of a gift is a prohibited source. The comment period for the proposed rule ended on December 12, 2011.

Recommendation:

We recommend that the Designated Agency Ethics Official (DAEO) complete and issue a final rule, as planned.

FMC 13-02 – Non-Compliance with Financial Disclosure Filing Requirements and Insufficient Departmental Guidance (*NFR No. OFM 13-02*)

During test work over financial disclosure reports at the headquarters Office of Ethics, we identified the following exceptions:

- OGE-278 Forms: For one of the 25 samples tested, the filer did not submit the financial disclosure form on time in accordance with OGE filing requirements. Additionally, the form was not submitted within the 30 day grace period.
- OGE-450 Forms: For three of the 45 samples tested, the filers did not submit the financial disclosure forms on time in accordance with the OGE filing requirements. Additionally, the forms were not submitted within the 30 day grace period.

During our review of the Department of Homeland Security Financial Disclosure Reporting Policy, we noted that the policy does not include language regarding the Department's policy for providing a 30 day grace period for OGE-450 filers. The Code of Federal Regulations (CFR) specifically provides a 30 day grace period for OGE-278 filers, but does not specify a grace period for OGE-450 filers.

We noted that the DAEO has established a program to periodically review component procedures and implementation of the financial disclosure reporting program as required by the Financial Disclosure Reporting Policy. However, not all components had submitted their implementing

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instructions to the DAEO for review and approval as required under the Financial Disclosure Reporting Policy. Consequently, the Headquarters Ethics Office program reviewers were unable to assess compliance with DAEO-approved procedures.

During testwork over financial disclosure forms at six components, five component audit teams identified findings related to the component financial disclosure processes, such as untimely submission and review, and lack of understanding of filing requirements.

Recommendations:

We recommend that DHS:

- Continue to work with employees to ensure they meet required financial disclosure filing deadlines and requirements.
- Update the Department of Homeland Security Financial Disclosure Reporting Policy to include language regarding the Department's policy for providing a 30 day grace period for OGE-450 filers, in order to clarify the filing date requirements per 5 CFR.
- Ethics Office continue to track and notify individual filers of due dates, notify them if and when their reports are overdue, and notify component management of delinquencies so that appropriate measures may be taken to compel compliance.
- Ethics Office also work with component ethics offices to ensure they establish and implement policies and procedures over their financial disclosure reporting program as required by Departmental policy.
- Headquarters Ethics Division continue conducting assist visits for three additional operating components. The assist visits are planned to continue on a rotating cycle. This program, which has written protocols for on-site review and evaluation of component ethics programs, includes follow up after action assessment of program strengths and weaknesses of operational component ethics programs, identification of best practices and recommendations for program improvements.

FMC 13-03 – Non-Compliance with Federal Employees' Health Benefits (*NFR No. OFM 13-05*)

U.S. Coast Guard's (USCG or Coast Guard) controls over Federal Employees' Health Benefits (FEHB) for civilian employees were not fully effective during fiscal year (FY) 2013 to ensure that FEHB contributions are paid in accordance with employee elections. Specifically, during testwork over compliance with various Human Resource laws and regulations, we noted that for one USCG sample of the 64 samples tested on a Department-wide basis, FEHB payments were not properly paid. We noted the USCG employee transferred to USCG from another Federal agency. Upon transfer, USCG did not input the employee's FEHB election information into the payroll system. As such, no payments were made into the FEHB program on behalf of the employee or employer (USCG) for 24 pay periods, resulting in \$9,000 of unpaid employer contributions. Upon recognition of the issue, USCG attempted to make a correcting contribution; however, a clerical error resulted in an actual amount contributed of \$93,000.

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Recommendations:

We recommend that Coast Guard:

- Human Resources (HR) operations staff develop a more robust civilian HR review process that incorporates a Payroll Processing Checklist (including Federal benefit information/forms) to ensure the timely input and verification of entry on duty document processing in applicable HR systems.
- Budget staff modify its standard operating procedures to include a more detailed level review of the payroll accounting system files in addition to the aggregate/object class review that was in place in FY 2013.

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Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
OFM	13-01	Departmental Standards of Conduct				13-01
OFM	13-02	Non-Compliance with Financial Disclosure Filing Requirements and Insufficient Departmental Guidance				13-02
OFM	13-03	Inadequate Review of Interim Contingent Legal Liability	A			
OFM	13-03a	Inadequate Preparation and Review of Final Contingent Legal Liabilities	A			
OFM	13-04	Inadequate Review of Component-Submitted Transaction by Elimination Pairs Reports	A			
OFM	13-05	Non-Compliance with Federal Employees' Health Benefits				13-03
OFM	13-06	Review of DHS Treasury Information Executive Repository Financial Statement and Footnote Crosswalks	A			
OFM	13-07	Inadequate Preparation and Review of Actuarial Federal Employees' Compensation Act Liability Allocation Worksheet	A			
OFM	13-08	<i>Number not used</i>	Not applicable			
OFM	13-09	Lack of Effective Controls over Accounting for Operating Leases	A			
OFM	13-10	Undelivered Orders Department-Wide Analysis	A			
OFM	13-11	Insufficient Department-Wide Non-GAAP Analysis	A			
OFM	13-12	Preparation and Review of the Special Purpose Financial Statements and Notes	Note 1			

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*

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L *Antideficiency Act, as amended (ADA)*

Note 1: This finding was reporting in the Independent Auditors' Report on the Special-Purpose Financial Statements



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix A
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ADDITIONAL INFORMATION

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

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