April 11, 2016

Why We Did This Audit


What We Found

We contracted with the independent public accounting firm KPMG LLP (KPMG) to audit the DHS’ fiscal year (FY) 2015 consolidated financial statements and internal control over financial reporting. The resulting management letter contains two observations related to internal control and other operational matters for management’s consideration. KPMG noted deficiencies and the need for improvement in the design, implementation, and operation of controls. These deficiencies are not considered significant and were not required to be reported in the Independent Auditors’ Report on DHS’ FY 2015 Financial Statements and Internal Control over Financial Reporting, dated November 13, 2015, included in the DHS FY 2015 Agency Financial Report. These observations are intended to improve internal control or result in other operating efficiencies.

For Further Information:
Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov
April 11, 2016

MEMORANDUM FOR: The Honorable Chip Fulghum  
Deputy Under Secretary for Management and  
Chief Financial Officer  
Management Directorate

FROM: John Roth  
Inspector General

SUBJECT: Management Directorate’s Management Letter for DHS’  
FY 2015 Financial Statements Audit

Attached for your action is our final report, Management Directorate’s  
Management Letter for DHS’ FY 2015 Financial Statements Audit. This report  
contains 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) 2015 financial  
statements and internal control over financial reporting. Internal control  
deficiencies were reported, as required, in the Independent Auditors’ Report,  
dated November 13, 2015, which was included in the DHS FY 2015 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 2015 financial statements and is responsible for the attached  
management letter dated December 18, 2015, 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 Department of Homeland Security. We will  
post the report on our website for public dissemination.

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

Attachment
December 18, 2015

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:

In planning and performing our audit of the consolidated financial statements of the U.S. Department of Homeland Security (DHS or Department), as of and for the year ended September 30, 2015, in accordance with auditing standards generally accepted in the United States of America and 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 financial statements. In conjunction with our audit of the general purpose 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 (MGMT) is a component of DHS. During our audit we noted certain matters involving internal control and other operational matters, related to MGMT, 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. The disposition of each internal control deficiency identified during our FY 2015 audits – as either reported in our Independent Auditors’ Report, or herein as a financial management letter comment – 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 MGMT 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 MGMT’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

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative (“KPMG International”), a Swiss entity.
### TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

<table>
<thead>
<tr>
<th>Comment Reference</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>FMC 15-01</td>
<td>Statement of Differences</td>
<td>2</td>
</tr>
<tr>
<td>FMC 15-02</td>
<td>Entity-Level Controls – Performance Reviews</td>
<td>2</td>
</tr>
</tbody>
</table>

### APPENDIX

<table>
<thead>
<tr>
<th>Appendix</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Crosswalk – Financial Management Comments to Active Notices of Findings and Recommendations (NFRs)</td>
<td>3</td>
</tr>
</tbody>
</table>
Management Directorate
Financial Management Comments
September 30, 2015

FMC 15-01 – Statement of Differences (NFR No. MGMT 15-08)

Controls were not properly designed and implemented to effectively resolve reconciling items on the statement of differences reconciliation prepared by the service provider. Specifically, we noted a significant number of reconciling items which were aged greater than 60 days.

Recommendation:
MGMT should develop and implement processes to ensure reconciling items related to the statement of differences reconciliation are cleared timely.

FMC 15-02 – Entity-Level Controls – Performance Reviews (NFR No. MGMT 15-10)

Controls were not operating effectively to ensure Performance Appraisal Forms were reviewed and approved. Specifically, in our review of the Performance Appraisal Forms for 15 employees, we identified one instance in which the initial Performance Work Plan, mid-cycle review, and final Performance Appraisal Review Form were not reviewed and approved by the reviewing official.

Recommendation:
MGMT should develop a process to allow the Office of Human Capital to escalate and enforce existing policies and procedures related to performance reviews.
Management Directorate  
*Crosswalk – Financial Management Comments to Active NFRs*  
*September 30, 2015*

<table>
<thead>
<tr>
<th>Component</th>
<th>NFR No.</th>
<th>Description</th>
<th>MW</th>
<th>SD</th>
<th>NC</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>MGMT</td>
<td>15-01</td>
<td>Monitoring of Service Provider Performed Functions</td>
<td>A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MGMT</td>
<td>15-02</td>
<td>Federal Financial Management System to PRISM Reconciliation</td>
<td></td>
<td>D</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MGMT</td>
<td>15-03</td>
<td>Suspense Reconciliation</td>
<td>A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MGMT</td>
<td>15-04</td>
<td>Review of Aged Accounts Receivable Balances</td>
<td>A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MGMT</td>
<td>15-05</td>
<td>Undelivered Orders</td>
<td>D</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MGMT</td>
<td>15-06</td>
<td>Journal Entry Review Process</td>
<td>A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MGMT</td>
<td>15-07</td>
<td>Operating Expense Approval</td>
<td>A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MGMT</td>
<td>15-08</td>
<td>Statement of Differences</td>
<td></td>
<td></td>
<td></td>
<td>15-01</td>
</tr>
<tr>
<td>MGMT</td>
<td>15-09</td>
<td>Antideficiency Act</td>
<td>J</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MGMT</td>
<td>15-10</td>
<td>Entity-Level Controls – Performance Reviews</td>
<td></td>
<td></td>
<td></td>
<td>15-02</td>
</tr>
</tbody>
</table>

*Disposition Legend:*  
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 System Functionality  
C  Property, Plant, and Equipment  
D  Budgetary Accounting  
E  Entity-Level Controls  
F  Grants Management  
G  Custodial Revenue and Refunds and Drawback  
H  Federal Managers’ Financial Integrity Act of 1982 (FMFIA)  
I  Single Audit Act Amendments of 1996  
J  Antideficiency Act, as amended (ADA)  
K  Federal Financial Management Improvement Act of 1996 (FFMIA)
Appendix B
Report Distribution

Department of Homeland Security

Secretary
Deputy Secretary
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
Chief Financial Officer

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees
ADDITIONAL INFORMATION AND COPIES

To view this and any of our other reports, please visit our website at: www.oig.dhs.gov.

For further information or questions, please contact Office of Inspector General Public Affairs at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov. Follow us on Twitter at: @dhsoig.

OIG HOTLINE

To report fraud, waste, or abuse, visit our website at www.oig.dhs.gov and click on the red "Hotline" tab. If you cannot access our website, call our hotline at (800) 323-8603, fax our hotline at (202) 254-4297, or write to us at:

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