

OFFICE OF INSPECTOR GENERAL

**Office of Financial Management's
Management Letter for DHS'
FY 2015 Financial Statements
Audit**



Homeland
Security

**April 19, 2016
OIG-16-65**



DHS OIG HIGHLIGHTS

Office of Financial Management's Management Letter for DHS' FY 2015 Financial Statements Audit

April 19, 2016

Why We Did This Audit

The *Chief Financial Officers Act of 1990* (Public Law 101-576) and the *Department Of Homeland Security Financial Accountability Act* (Public Law 108-330) require us to conduct an annual audit of the Department of Homeland Security's (DHS) consolidated financial statements and internal control over financial reporting.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

KPMG LLP, under contract with the DHS Office of Inspector General, audited the Office of Financial Management's financial statements and internal control over financial reporting for fiscal year (FY) 2015. The resulting management letter contains five observations related to internal controls and other operational matters for management's consideration. KPMG LLP identified internal control deficiencies and the need for improvement in several processes including reporting of financial data, and reconciling unfilled customer order and undelivered order balances. 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.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

APR 19 2016

MEMORANDUM FOR: Jeffrey Bobich
Director, Office of Financial Management
Office of Chief Financial Officer

FROM: Mark Bell *Mark Bell*
Assistant Inspector General for Audits

SUBJECT: *Office of Financial Management's Management Letter
for DHS' FY 2015 Financial Statements Audit*

Attached for your information is our final report, *Office of Financial Management's Management Letter for DHS' FY 2015 Financial Statements Audit*. This report contains five observations related to internal control deficiencies that were not required to be reported in our *Independent Auditors' Report on DHS' FY 2015 Financial Statements and Internal Control over Financial Reporting*, dated November 13, 2015, which was included in the Department of Homeland Security's (DHS) fiscal year (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 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 Maureen Duddy, Deputy Assistant Inspector General for Audits, at (617) 565-8723.

Attachment



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

December 18, 2015

Office of Inspector General,
U.S. Department of Homeland Security, and
Chief Financial Officer
U.S. Department of Homeland Security, Office of Financial Management
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 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. 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, 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 OFM'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

Office of Financial Management
Table of Financial Management Comments
September 30, 2015

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

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FMC 15-01 – Non-Compliance with Financial Disclosure Filing Requirements and Ethics Training Requirements (NFR No. OFM 15-01)

Controls over the submission and review of public financial disclosure reports (Office of Government Ethics (OGE) Form 278s) and confidential financial disclosure reports (OGE Form 450s) were not operating effectively. Specifically, during our testwork over OGE-278 filings, we noted:

- For one of the 25 samples tested, the filer did not submit the financial disclosure form on time in accordance with the OGE filing requirements. Additionally, the form was not submitted within the 30-day grace period.
- For 13 of the 25 samples tested, the final review/certification was untimely.
- For one of the 25 samples selected, DHS was unable to provide a disclosure form.

During our testwork over OGE-450 filings, we noted:

- For one of the 45 samples tested, the filer did not submit the financial disclosure form on time in accordance with the OGE filing requirements. Additionally, the form was not submitted within the 30-day grace period.
- For seven of the 45 samples tested, the final review/certification was untimely.
- For one of the 45 samples selected from the OGE-450 filer population, the filer was improperly categorized as an OGE-450 filer. The individual should have been categorized as an OGE-278 filer.

We also noted that controls over ensuring compliance with the annual ethics training requirement were not operating effectively. Specifically, we noted:

- During testwork over a sample of 70 employees, DHS could not provide evidence that four employees had completed ethics training, three of which were on detail to other agencies during the period under review. Additionally, we identified one employee who was hired in FY 2015, but DHS was unable to provide evidence that the employee received ethics training within 90 days of his or her date of hire.
- While the Designated Agency Ethics Official had established a program to periodically review DHS component ethics office procedures and implementation of the financial disclosure reporting program as required by the Financial Disclosure Reporting Policy, not all components had submitted their implementing instructions to the Designated Agency Ethics Official for review and approval as required under the Financial Disclosure Reporting Policy. As such, the DHS headquarters Ethics Office program reviews were inhibited in assessing compliance with Designated Agency Ethics Official approved procedures.
- During testwork over financial disclosure forms at eight components, we identified findings related to financial disclosure processes at six components (U.S. Coast Guard, Federal Emergency Management Agency, Customs and Border Protection, Transportation Security Administration, Immigrations and

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Customs Enforcement, and U.S. Secret Service). These findings included untimely submission and review, and lack of understanding of filing requirements.

Recommendations:

The Ethics Office should provide timely notifications to employees to ensure they are aware of their obligations to meet required filing deadlines and training requirements. To support these efforts, the Ethics Office should 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. The Ethics Office should continue to conduct ethics training each pay period for new employees and conduct ethics training sessions in person each calendar, provide on-line training examples and review for the acquisition workforce ethics training and provide ethics training to all financial disclosure report filers, and other filers upon request. Additionally, the Ethics Office should 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.

FMC 15-02 – Departmental Standards of Conduct (NFR No. OFM 15-02)

During our testwork 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 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, require employees to report allegations of waste, fraud and abuse, 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. As of September 30, 2015, the Supplemental Standards of Conduct had completed Departmental review and was awaiting approval from the Secretary.

Recommendation:

We recommend that the Designated Agency Ethics Official continue to work towards publishing a final rule.

FMC 15-03 – Intra-departmental Reconciliation of Unfilled Customer Order and Undelivered Order Balances (NFR No. OFM 15-04)

We noted that in some instances, components were not providing timely and complete templates to the Management Directorate for use in the undelivered orders reconciliation.

Controls were not operating effectively to ensure all DHS components report accurate intra-departmental unfilled customer orders and undelivered order balances timely to assist with the reconciliation and resolution of reconciling differences.

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Recommendation:

OFM should continue to work with the Management Directorate to improve components' timely and complete responses for the undelivered orders reconciliation.

FMC 15-04 – Evaluation of Potential Subsequent Events Related to Actuarially Derived Estimates (NFR No. OFM 15-05)

DHS financial management had not implemented a process to identify, evaluate, and document events subsequent to year-end, but prior to issuance of the financial report, that may impact their actuarially derived estimates. Specifically, DHS did not have a sound process in place to identify and evaluate release of updated mortality information from the Society of Actuaries that could affect mortality assumptions used in the United States Secret Service pension liability valuation.

Recommendation:

OFM should coordinate with its contracted actuary to obtain updated actuarial information within ten business days of their review.

FMC 15-05 – Review of the Closing Package Financial Statements and Notes (NFR No. OFM 15-06)

DHS financial management did not establish sufficient internal controls to ensure that the amounts presented in the closing package financial statements and related notes were accurately presented per the instructions contained in Treasury Financial Manual Chapter 4700. We noted that in module GF002A – Audited Financial Statement Report for the Statement of Changes in Net position, Net Cost of Operations was reported as \$228, resulting in OFM changing the amount to (\$228). Furthermore, we noted inconsistent rounding throughout the preparation of the financial statements and related notes.

Additionally, we identified several errors related to the Governmentwide Financial Report System financial reporting note reports. We noted errors in line items in Note 05 – *Inventories and Related Property* and Note 19 – *Commitments* which were subsequently corrected by DHS financial management. We also noted immaterial errors in Note 06 – *Property, Plant, and Equipment* that were not corrected by management.

Recommendation:

We recommend that DHS OFM improve controls over financial reporting for the closing package financial statements to ensure that accompanying notes are accurately prepared in accordance with instructions contained in Treasury Financial Manual Chapter 4700.

Office of Financial Management
 Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2015

| Component | NFR No. | Description | Disposition | | | |
|-----------|---------|---|-------------|----|----|-------|
| | | | IAR | | | FMC |
| | | | MW | SD | NC | No. |
| OFM | 15-01 | Non-Compliance with Financial Disclosure Filing Requirements and Ethics Training Requirements | | | | 15-01 |
| OFM | 15-02 | Departmental Standards of Conduct | | | | 15-02 |
| OFM | 15-03 | Non-Compliance with Federal Manager’s Financial Integrity Act (FMFIA) of 1982 | | | H | |
| OFM | 15-04 | Intra-Departmental Reconciliation of Unfilled Customer Order and Undelivered Order Balances | | | | 15-03 |
| OFM | 15-05 | Evaluation of Potential Subsequent Events Related to Actuarially Derived Estimates | | | | 15-04 |
| OFM | 15-06 | Review of the Closing Package Financial Statements and Notes | | | | 15-05 |

¹Disposition Legend:

| | |
|-----|--|
| IAR | Independent Auditors’ Report dated November 13, 2015 |
| 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 | <i>Federal Managers’ Financial Integrity Act of 1982 (FMFIA)</i> |
| I | <i>Single Audit Act Amendments of 1996</i> |
| J | <i>Antideficiency Act, as amended (ADA)</i> |
| K | <i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i> |



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B
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