

**OFFICE OF INSPECTOR GENERAL**

# **National Protection and Programs Directorate's Management Letter for DHS' FY 2015 Financial Statements Audit**



Homeland  
Security

**April 27, 2016**  
**OIG-16-73**



# DHS OIG HIGHLIGHTS

## *National Protection and Programs Directorate's Management Letter for DHS' FY 2015 Financial Statements Audit*

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**April 27, 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](mailto:DHS-OIG.OfficePublicAffairs@oig.dhs.gov)

### **What We Found**

KPMG LLP, under contract with the DHS Office of Inspector General, audited the National Protection and Programs Directorate'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 noted internal control deficiencies and the need for improvement in several processes, including policies and procedures related to certain personnel actions; revenue accruals; and suspense reconciliation. 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](http://www.oig.dhs.gov)

APR 27 2016

MEMORANDUM FOR: David Hill  
Chief Financial Officer  
National Protection and Programs Directorate

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

SUBJECT: *National Protection and Programs Directorate's  
Management Letter for DHS' FY 2015 Financial  
Statements Audit*

Attached for your information is our final report, *National Protection and Programs Directorate'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, National Protection and Programs 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 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. 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, NPPD Chief Information Officer and NPPD 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

National Protection and Programs Directorate  
*Table of Financial Management Comments*  
September 30, 2015

**TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)**

<b>Comment Reference</b>	<b>Subject</b>	<b>Page</b>
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**APPENDIX**

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National Protection and Programs Directorate  
*Financial Management Comments*  
September 30, 2015

**FMC 15-01 – Approval of Personnel Actions (NFR No. NPPD 15-01)**

NPPD lacked approved policies and procedures to verify that employee data processed for new hires was accurately entered into the EmpowHR human resources application prior to submission to the National Finance Center.

*Recommendation:*

The NPPD Operations Branch should implement the policies and procedures for personnel processing once finalized and ensure second level reviews of actions are completed prior to submission to National Finance Center for processing.

**FMC 15-02 – Time and Attendance (NFR No. NPPD 15-02)**

NPPD lacked approved policies and procedures requiring:

- Supporting documentation to be maintained evidencing leave approvals processed outside of the WebTA system.
- Monitoring of the individuals listed in WebTA, who have the ability to approve timesheets, to ensure that only authorized individuals have the “approver” role within the system.

*Recommendation:*

The Operations Branch should finalize the WebTA standard operating procedures.

**FMC 15-03 – Revenue Accrual (NFR No. NPPD 15-04)**

The revenue accrual was not designed to accrue for the full amount of revenue related to 1/12<sup>th</sup> billing agreements. We noted that the revenue accrual methodology accrued revenue based on expenses that had been paid related to each project code without additional consideration of revenue that should be accrued to account for the gap between the start of the contract and approval date in the system.

Specifically, we noted that five months of revenue from FY 2014 related to a contract that had a period of service of May 1, 2014 to September 1, 2014 and monthly revenue of \$48,000, was billed and recognized in October 2014. We inspected the revenue accrual for this contract to verify whether the revenue was appropriately accrued as of September 30, 2014. We noted that only \$134,000 of revenue related to this contract was accrued based on the accrual methodology, which resulted in an overstatement of \$106,000 to the revenue balance in FY 2015.

Additionally, we noted there was no formal, documented review of the accrual methodology on an annual basis to ensure that the accrual methodology used is appropriate.

*Recommendations:*

During FY 2015, Federal Protective Service ran an extra billing cycle at September 30 to ensure that all the appropriate revenue was recorded in the financial statements. We recommend that Federal Protective Service formalize this process to recur annually on September 30. Federal Protective Service should also continue to review and revise processes to build additional controls into the revenue accrual process.

National Protection and Programs Directorate  
*Financial Management Comments*  
September 30, 2015

**FMC 15-04 – Entity-Level Controls – Performance Reviews (NFR No. NPPD 15-10)**

Controls were not appropriately implemented to ensure the performance review process functioned as designed. Specifically, during our inspection of documentation for the employee review process of one employee, we identified the following:

- The initiation of the Performance Work Plan was not performed timely. The employee's Performance Work Plan was not implemented until six months after the start of the performance review cycle, which exceeds NPPD's 30 day requirement.
- One instance in which the review and approval of the Performance Appraisal Review Form was not evidenced.

*Recommendation:*

The NPPD Employee and Labor Relations Office (E&LR) must fully comply with performance management mandates to ensure system and process integrity. For compliance purposes during FY 2016, E&LR should conduct quarterly random Employee Performance Plan requests from each sub-component to review and ensure plan maintenance and compliance with DHS and NPPD performance management regulations and guidance. Documentation should be maintained that notes trends and variables in data provided for each quarter.

**FMC 15-05 –Suspense Reconciliation (NFR No. NPPD 15-12)**

Controls were not operating effectively to ensure that the reconciling items per the suspense reconciliation were cleared timely. Specifically, we noted that as of September 30, 2015, NPPD had \$21.3 million recorded in a suspense Treasury account fund symbol. As a result, we note that there is the maximum potential for \$21.3 million of understatement to operating expenses related to these unapplied transactions.

*Recommendations:*

NPPD should continuously monitor the processing of the Intra-governmental Payments and Collections (IPACs) to ensure timely clearance of transactions. NPPD should engage financial managers, as well as those leading the payment management process, to identify why IPACs are not clearing timely and develop procedures moving forward to remedy common root causes. For year-end closing, NPPD should make every effort to process IPACs to remain under the required threshold and not close out all transactions to eliminate the statement of differences.

National Protection and Programs Directorate  
 Crosswalk – Financial Management Comments to Active NFRs  
 September 30, 2015

Component	NFR No.	Description	Disposition			
			IAR			FMC
			MW	SD	NC	No.
NPPD	15-01	Approval of Personnel Actions				15-01
NPPD	15-02	Time and Attendance				15-02
NPPD	15-03	Monitoring of Service Provider Performed Functions	A			
NPPD	15-04	Revenue Accrual				15-03
NPPD	15-05	FFMS to PRISM Reconciliation		D		
NPPD	15-06	Recovery of Prior Year Obligations		D		
NPPD	15-07	Operating Expense Approval	A			
NPPD	15-08	Journal Entry Review Process	A			
NPPD	15-09	Undelivered Orders		D		
NPPD	15-10	Entity-Level Controls – Performance Reviews				15-04
NPPD	15-11	Accounting for CDM Program Costs	A			
NPPD	15-12	Suspense Reconciliation				15-05
NPPD	15-13	Antideficiency Act			J	
NPPD	15-14	Accounting for Einstein Program Costs	A, C			

Disposition 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

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**Appendix B**  
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Office of Inspector General, Mail Stop 0305  
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245 Murray Drive, SW  
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