



Department of Homeland Security Office of Inspector General

National Protection and Programs Directorate's Management Letter for FY 2010 DHS Consolidated Financial Statements Audit





Homeland
Security

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Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

This report presents the National Protection and Programs Directorate's Management Letter for FY 2010 DHS Consolidated Financial Statements Audit. It contains observations related to internal control that were not required to be reported in the financial statement audit report. The independent public accounting firm KPMG LLP (KPMG) performed the integrated audit of DHS' FY 2010 financial statements and internal control over financial reporting and prepared this management letter. Other significant deficiencies were reported, as required, in KPMG's *Independent Auditors' Report*, dated November 12, 2010, which was included in the FY 2010 DHS *Annual Financial Report*. KPMG is responsible for the attached management letter dated February 2, 2011, and the conclusions expressed in it. We do not express opinions on DHS' financial statements or internal control, or provide conclusions on compliance with laws and regulations.

The observations herein have been discussed in draft with those responsible for implementing corrective actions. We trust this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in cursive script that reads "Anne L. Richards".

Anne L. Richards

Assistant Inspector General for Audits



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

February 2, 2011

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 (NPPD)
Washington, DC

Ladies and Gentlemen:

We were engaged to audit the balance sheet of the U.S. Department of Homeland Security (DHS or Department) as of September 30, 2010 and the related statement of custodial activity for the year then ended (referred to herein as “financial statements”). We were also engaged to examine the Department’s internal control over financial reporting of the balance sheet as of September 30, 2010, and the statement of custodial activity for the year then ended. We were not engaged to audit the accompanying statements of net cost, changes in net position, and budgetary resources for the year ended September 30, 2010 (referred to herein as other fiscal year (FY) 2010 financial statements), or to examine internal control over financial reporting over the other FY 2010 financial statements.

Because of matters discussed in our *Independent Auditors’ Report*, dated November 12, 2010, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the FY 2010 financial statements and we were unable to perform procedures necessary to form an opinion on DHS’ internal control over financial reporting of the balance sheet as of September 30, 2010 and the related statement of custodial activity for the year then ended. National Protection and Programs Directorate (NPPD) is a component of DHS. We noted certain matters involving internal control and other operational matters, related to NPPD that are summarized in the Table of Financial Management Comments on the following pages, and presented for your consideration in Section I of this letter. 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 comments are in addition to the significant deficiencies presented in our *Independent Auditors’ Report*, dated November 12, 2010, included in the FY 2010 DHS *Annual Financial Report*. A description of each internal control finding and its disposition as either a significant deficiency or a financial management comment is provided in Appendix A.

As described above, the scope of our work was not sufficient to express an opinion on the balance sheet as of September 30, 2010 or the statement of custodial activity of DHS for the year then ended, and we were not engaged to audit the statements of net cost, changes in net position, and budgetary resources for the year ended September 30, 2010. Accordingly, other internal control matters may have been identified and reported had we been able to perform all procedures necessary to express an opinion on the FY 2010 financial statements and had we been engaged to audit the other FY 2010 financial statements. 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. This report is intended for the information and use of DHS' and NPPD's management, the DHS Office of Inspector General, the U.S. Office of Management and Budget, the U.S. Congress, and the Government Accountability Office, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

National Protection and Programs Directorate
Table of Financial Management Comments
September 30, 2010

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National Protection and Programs Directorate
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September 30, 2010

FMC 10-01 – Inadequate Controls over Reporting of Internal Use Software Projects (NFR No. NPPD 10-01)

During testwork over National Protection and Programs Directorate (NPPD) USVISIT asset additions and general journal entries as of June 30, 2010, we noted several assets, totaling approximately \$21 million, which were recorded in SGL account 1750 – *Equipment* rather than SGL account 1830 – *Internal Use Software*.

Recommendation:

We recommend that NPPD work with USVISIT management to include a second review of dollar values on the quarterly reports by another Senior Budget Analyst to ensure a complete review of and the proper recording of property balances.

FMC 10-02 – Inconsistent Application of Property Capitalization Thresholds (NFR No. NPPD 10-02)

During our review of capitalization policies at NPPD, we noted that the capitalization thresholds are not consistently applied to personal property.

In fiscal year (FY) 2010, NPPD – USVISIT’s personal property capitalization threshold was \$200,000. NPPD – Federal Protective Service (FPS) personal property capitalization threshold was \$50,000 and includes capitalization of all vehicles.

Recommendation:

We recommend that NPPD establish and follow policies and procedures to standardize the capitalization thresholds.

FMC 10-03 – Untimely De-obligation of Undelivered Orders (NFR No. NPPD 10-03)

KPMG judgmentally selected a sample of 45 items from the population of undelivered orders (UDOs) as of May 31, 2010 and identified 20 items that were not valid as of May 31, 2010 and therefore should have been de-obligated. We noted that several items in the sample were from FY 2006 and prior and had not been reviewed.

Recommendation:

We recommend that NPPD reevaluate the current process for reviewing unliquidated obligations for excessive residual funds that should be de-obligated and ensure that the Financial Management Office, Office of Acquisition Operations, DHS Office of Procurement Operations (OPO), and the program offices continue to collaborate as standard operating procedures are developed for FY 2011.

National Protection and Programs Directorate
Financial Management Comments
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FMC 10-04 – Subject to Availability of Funding Agreements not Obligated in the Federal Financial Management System (FFMS) at Outset of Agreement (NFR No. NPPD 10-05)

During our FY 2010 testwork over non-IPAC disbursements we noted that 9 out of 67 samples were related to obligations which were created in FFMS after the costs related to the invoice were incurred. In some cases, additional funding was added to the obligation after the receipt of the invoice because the funding in FFMS was not sufficient to pay the invoice

Recommendation:

We recommend that NPPD coordinate with the budget office and field offices to ensure funds are available to obligate at the beginning of the contract by ensuring the quarterly allocation of funds.

FMC 10-05 – Obligations are not Recorded in FFMS in a Timely Manner (NFR No. NPPD 10-06)

We judgmentally selected a sample of 67 obligations as of May 31, 2010, August 31, 2010, and September 30, 2010 and identified 10 obligations which were not recorded timely in FFMS after the Contracting Officer's award.

Recommendation:

We recommend that NPPD reassess the current process to ensure funds are obligated in a timely manner, which will include the collaboration of the Office of Financial Management, program offices, and DHS OPO.

FMC 10-06 – Payment Processing without Contracting Officer Certification (NFR No. NPPD 10-07)

During testwork over disbursements as of August 31, 2010, we noted that one invoice was submitted to the Dallas Finance Center (DFC) to be processed for payment that had not been certified by the Contracting Officer. NPPD did not review the invoice for certification before sending it to DFC for payment. DFC did not review the invoice for Contracting Officer approval and processed the payment, for \$3,870,739, along with \$267 of Prompt Payment Interest that should not have been paid.

Recommendation:

We recommend that NPPD continue to utilize WebView to ensure that the COTR are notified of invoices that are pending approval. However, due to WebView system limitations that prevent the COTR and Contracting Office from electronically approving invoices for payment in the system, NPPD should consider the possibility of altering the current WebView features to provide review and approval access to Contracting Officers.

National Protection and Programs Directorate
 Crosswalk - Financial Management Comments to NFRs
 September 30, 2010

NFR No.	Description	Disposition ¹			
		IAR			FMC
		MW	SD	NC	No.
10-01	Inadequate Internal Controls Over Reporting of Internal-Use Software Projects				10-01
10-02	Inconsistent Application of Property Capitalization Thresholds at NPPD				10-02
10-03	Untimely De-Obligation of Undelivered Orders				10-03
10-04	Potential Antideficiency Act, as amended (ADA) Violation			M	
10-05	Subject to Availability of Funding Agreements Not Obligated in FFMS at Outset of Agreement				10-04
10-06	Obligations Are Not Recorded in FFMS in a Timely Manner				10-05
10-07	Payment Processed Without Contracting Officer Certification				10-06

¹Disposition Legend:

IAR	Independent Auditors' Report dated November 12, 2010
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 Noncompliance 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 Management and Reporting
B	Information Technology Controls and System Functionality
C	Fund Balance with Treasury
D	Property, Plant, and Equipment
E	Actuarial and Other Liabilities
F	Budgetary Accounting
G	Other Entity-Level Controls
H	Custodial Revenue and Drawback
I	<i>Federal Managers' Financial Integrity Act of 1982 (FMFIA)</i> , and Laws and Regulations Supporting OMB Circular No. A-50, <i>Audit Followup</i> , as revised
J	<i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i>
K	<i>Single Audit Act Amendments of 1996</i>
L	<i>Chief Financial Officers Act of 1990 (CFO Act)</i>
M	<i>Antideficiency Act</i> , as amended (ADA)
N	<i>Government Performance and Results Act of 1993 (GPRA)</i>

National Protection and Programs Directorate
Status of Prior Year NFRs
 September 30, 2010

NFR No.	Description	Disposition ¹	
		Closed ²	Repeat (2010 NFR No.)
09-01	Potential Violation of the Antideficiency Act, as amended (ADA)		NPPD 10-04
09-02	Obligations are not Being Keyed into FFMS in a Timely Manner		NPPD 10-06
09-03	Failure to Provide Reasonable Assurance that Internal Controls are Achieving Their Intended Objectives	X	
09-04	Items in the Suspense Account are not Being Researched and Resolved in a Timely Manner as Defined by Treasury	X	
09-05	Aged Obligations are Not Timely Reviewed to Ensure the Validity and Accuracy of the UDO Balance		NPPD 10-03
09-06	SES Failed to File Financial Disclosure Forms as Required	X	
09-07	Accounts Payable Transactions are Not Being Recorded in FFMS Timely	X	
09-08	Insufficient Internal Controls over PP&E		NPPD 10-01

¹ KPMG was engaged to perform an audit over the DHS balance sheet and statement of custodial activity as of and for the year ended September 30, 2009, and was not engaged to perform an audit over the statement of net cost, statement of changes in net position, and statement of budgetary resources for the year ended September 30, 2009. In addition, we were engaged to follow up on the status of all active NFRs that supported significant deficiencies reported in KPMG's *Independent Auditors' Report* dated November 13, 2009.

² NFRs were closed either through remediation of the findings or we were not engaged to follow up on active NFRs that did not support significant deficiencies reported in KPMG's *Independent Auditors' Report* dated November 13, 2009.

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