

**OFFICE OF INSPECTOR GENERAL**

# **Management Directorate's Management Letter for DHS' FY 2014 Financial Statements Audit**



Homeland  
Security

**April 21, 2015  
OIG-15-75**



# HIGHLIGHTS

## *Management Directorate's Management Letter for DHS' FY 2014 Financial Statements Audit*

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**April 21, 2015**

### **Why We Did This**

The Federal Government has a fundamental responsibility to be an effective steward of taxpayers' dollars. Sound financial practices and related management operations, reliable financial systems, and effective internal control are essential for reliable, timely financial information that supports management decision making needed to achieve the Department of Homeland Security's (DHS) mission.

#### **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 reviewed the Management Directorate's (MGMT) internal control over financial reporting. The management letter contains four observations related to internal control and other operational matters for management's consideration.

KPMG LLP noted deficiencies and the need for improvement in certain MGMT processes. These deficiencies did not meet the criteria to be reported in the *Independent Auditors' Report on DHS' FY 2014 Financial Statements and Internal Control over Financial Reporting*, dated November 14, 2014, included in DHS' fiscal year 2014 *Agency Financial Report*. These observations are intended to improve internal control or result in other operating efficiencies.

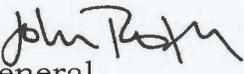


**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

Washington, DC 20528 / [www.oig.dhs.gov](http://www.oig.dhs.gov)

April 21, 2015

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

FROM: John Roth   
Inspector General

SUBJECT: *Management Directorate's Management Letter for DHS' FY 2014 Financial Statements Audit*

Attached for your information is our final report, *Management Directorate's Management Letter for DHS' FY 2014 Financial Statements Audit*. This report contains observations related to internal control deficiencies that were not required to be reported in the *Independent Auditors' Report on DHS' FY 2014 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 November 14, 2014, which was included in the Department of Homeland Security (DHS) fiscal year (FY) 2014 *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 2014 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 appropriate 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



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

December 8, 2014

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, 2014, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *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 consolidated financial statements. In conjunction with our audit of the consolidated 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 on the following pages. The disposition of each internal control deficiency identified during our FY 2014 audit – 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**

Management Directorate  
*Table of Financial Management Comments*  
September 30, 2014

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

<b>Comment Reference</b>	<b>Subject</b>	<b>Page</b>
FMC 14-01	Approval of Personnel Actions	2
FMC 14-02	New Hire Controls	2
FMC 14-03	Financial Reporting – General Journal Entry	2
FMC 14-04	Inadequate Third Party Documentation to Support Leases and Related Leasehold Improvements	3

**APPENDIX**

<b>Appendix</b>	<b>Subject</b>	<b>Page</b>
A	Crosswalk – Financial Management Comments to Active Notices of Finding and Recommendation (NFRs)	4

Management Directorate  
*Financial Management Comments*  
September 30, 2014

**FMC 14-01 – Approval of Personnel Actions (*Notice of Finding and Recommendation (NFR) No. Management Directorate (MGMT) 14-01*)**

For two of the 30 samples selected, controls were not operating effectively to ensure that individual cash awards were appropriately authorized and the calculated pre-tax award amount was inaccurately applied.

*Recommendations:*

We recommend that MGMT:

- Ensure that processors are properly trained.
- Implement a quality assurance process to review actions prior to process.
- Update cash award forms to properly handle taxes.

**FMC 14-02 – New Hire Controls (*NFR No. MGMT 14-08*)**

For one of the three samples selected, controls were not operating effectively to ensure benefit expense amounts were recorded at the correct amount. Specifically, during our testing of employee benefit expenses, we noted an employee was coded incorrectly to the wrong agency for a year. When the incorrect coding was identified, all of the employee benefit expense amounts for the affected pay periods were reclassified to MGMT.

*Recommendations:*

We recommend that MGMT:

- Ensure that processors are properly trained.
- Implement a quality assurance process to review actions prior to processing.

**FMC 14-03 – Financial Reporting – General Journal Entry (*NFR No. MGMT 14-09*)**

Preparation and review of journal entries were not designed at a level of precision to prevent improper posting of manual journal entries. We inspected the manual journal entry populations for U.S. Immigration and Customs Enforcement (ICE), MGMT, and National Protection and Programs Directorate, noting a number of correcting entries to previously posted entries. Additionally, we noted that for some entries supporting documentation and back-up for the journal entry was not sufficient to fully support and explain the purpose and/or need for the entry.

*Recommendations:*

We recommend that MGMT work with ICE to review the current documented general journal process and ensure proper controls are in place and adhered to.

Management Directorate  
*Financial Management Comments*  
September 30, 2014

**FMC 14-04 – Inadequate Third Party Documentation to Support Leases and Related Leasehold Improvements (NFR No. MGMT 14-10)**

Controls were not fully effective over the accounting of lease and related leasehold improvements to ensure proper documentation was available to support the projects recorded in the financial statements. Specifically, for one sample out of four selected, we noted third-party documentation was not available to support leasehold improvements that were placed into service in FY 2014.

*Recommendation:*

We recommend that MGMT develop and implement internal controls to ensure proper supporting documentation is obtained and retained to evidence the in-service date of leasehold improvements.

Management Directorate  
 Crosswalk - Financial Management Comments to Active NFRs  
 September 30, 2014

Component	NFR No.	Description	Disposition <sup>1</sup>			
			IAR			FMC
			MW	SD	NC	No.
MGMT	14-01	Approval of Personnel Actions				14-01
MGMT	14-02	Untimely Apportionments	D			
MGMT	14-03	Operating Expense Approval and Coding	D			
MGMT	14-04	Invoice Receipt	B,D			
MGMT	14-05	Recording of Leasehold Improvements	A			
MGMT	14-06	Anti-Deficiency Act	D		J	
MGMT	14-07	Undelivered Orders	D			
MGMT	14-08	New Hire Controls				14-02
MGMT	14-09	Financial Reporting – General Journal Entry				14-03
MGMT	14-10	Inadequate Third Party Documentation to Support Leases and Related Leasehold Improvements				14-04
MGMT	14-11	Financial Reporting	A,B		K	
MGMT	14-12	<i>Number not used</i>	Not applicable			
MGMT	14-13	Entity Level Controls and Non-Compliance with Federal Managers Financial Integrity Act	A	E		

**<sup>1</sup>Disposition Legend:**

IAR	Independent Auditors' Report dated November 13, 2014
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	Grants Management
G	Custodial Revenue and Drawback
H	<i>Federal Managers' Financial Integrity Act of 1982 (FMFIA)</i>
I	<i>Single Audit Act Amendments of 1996</i>
J	<i>Anti-deficiency Act, as amended (ADA)</i>
K	<i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i>



## **Appendix A**

### **Report Distribution**

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