

**Office of Financial Management's
Management Letter for DHS'
FY 2014 Financial Statements Audit**





HIGHLIGHTS

Office of Financial Management's Management Letter for DHS' FY 2014 Financial Statements Audit

April 16, 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

What We Found

KPMG LLP reviewed the Office of Financial Management's (OFM) internal control over financial reporting. The management letter contains four observations related to internal control and other operational matters for management's considerations.

KPMG LLP noted deficiencies and the need for improvement in certain OFM 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

APR 16 2015

MEMORANDUM FOR: Jeffrey Bobich
Director
Office of Financial Management

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

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

Attached for your information is our final report, *Office of Financial Management'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 also post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Paul Wood, Acting Deputy 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, 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, 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 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 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 DHS 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 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.

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, 2014

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

Comment Reference	Subject	Page
FMC 14-01	Departmental Standards of Conduct	2
FMC 14-02	Inadequate Review of Component Statement of Net Cost Templates	2
FMC 14-03	Non-Compliance with Financial Disclosure Filing Requirements and Ethics Training Requirements	3
FMC 14-04	Advances and Prepayments	4

APPENDIX

Appendix	Subject	Page
A	Crosswalk – Financial Management Comments to Active Notices of Finding and Recommendation (NFRs)	5

Office of Financial Management
Financial Management Comments
September 30, 2014

FMC 14-01 – Departmental Standards of Conduct (*Notice of Finding and Recommendation (NFR) No. Office of Financial Management (OFM) 14-01*)

During our test work over entity-level controls, we noted that DHS has not issued 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 (OGE) 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. The comment period for the proposed rule ended on December 12, 2011.

Recommendation:

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

FMC 14-02 – Inadequate Review of Component Statement of Net Cost Templates (*NFR No. OFM 14-02*)

During our interim test work over Component statement of net cost (SNC) templates, we noted that the costs per the Immigration and Custom Enforcement (ICE) SNC template were not allocated in accordance with ICE's approved SNC allocation methodology. Specifically, we noted that per ICE's SNC methodology, ICE aligns its programs with six DHS Strategic Goals (mission 1, mission 2, mission 3, mission 4, mission 5, and focus area 1). We noted that in the SNC template, ICE did not allocate any costs to DHS Strategic Goal - mission 5, and incorrectly allocated costs to DHS Strategic Goal - focus area 2. Mission 5 and focus area 2 are mapped to different major missions on the face of the SNC. This error was not identified during OFM's review process.

Recommendation:

We recommend that DHS increase communication during the quality control phase of the review of all notes and statements and include an additional control review step of flux analysis.

FMC 14-03 – Non-Compliance with Financial Disclosure Filing Requirements and Ethics Training Requirements (NFR No. OFM 14-03)

- During test work over financial disclosure reports at the headquarters Office of Ethics, we identified the following exceptions:
 - OGE 278 Forms:
 - Two out of 25 samples tested did not have timely submission of the forms by the filers in accordance with the OGE filing requirements. Additionally, the forms were not submitted within the 30 day grace period.
 - Five out of 25 samples tested had an untimely initial review (i.e. not within 60 days of the date the form was submitted).
 - Fifteen out of 25 samples tested had an untimely final review/certification.
 - OGE 450 Forms:
 - Four out of 45 samples tested did not have timely submission of the forms by the filers in accordance with the OGE filing requirements. Additionally, the forms were not submitted within the 30 day grace period.
 - Two out of 45 samples tested were completed and signed by the filer timely, but were not submitted to the Ethics Officer timely.
 - Seven out of 45 samples tested had an untimely final review/certification.
- During testwork over a sample of 65 employees, we identified three OGE 450 filers where evidence could not be provided that they had completed ethics training.
- We noted that the Designated Agency Ethics Official has established a program to periodically review component procedures and implementation of the financial disclosure reporting program as required by the Financial Disclosure Reporting Policy. However, the Headquarters Ethics Office program reviews were unable to assess compliance with Designated Agency Ethics Official -approved procedures because 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.
- During testwork over financial disclosure forms at eight components, all eight component audit teams (U.S. Coast Guard, Federal Emergency Management Agency, Customs and Border Protection, Transportation Security Administration, Federal Law Enforcement and Training Center, U.S. Citizenship and Immigration Service, U.S. Immigration and Customs Enforcement, and U.S. Secret Service) identified findings related to the component financial disclosure processes, such as untimely submission and review, and lack of understanding of filing requirements.

Office of Financial Management
Financial Management Comments
September 30, 2014

Recommendations:

We recommend that the DHS Ethics Office:

- Continue to provide timely notifications to employees to ensure they are aware of their obligations to meet required filing deadlines and training requirements and 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.
- Continue to conduct ethics training each pay period for new employees and conduct ethics training sessions in person each calendar year for senior executives, Federal Advisory Committee Act members, 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.
- 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 14-04 – Advances and Prepayments (*NFR No. OFM 14-05*)

DHS lacked documented procedures to ensure prepayment and advances associated with the working capital fund were appropriately recorded at the component level upon notification from the working capital fund. Specifically, we noted one instance for a transaction of \$45 million, where the working capital fund notified components of the service period and that an advance needed to be established; however, the related components did not have a corresponding advance recorded in their general ledgers.

Recommendation:

We recommend that DHS Financial Management update the FY 2015 Component Requirements Guide to include instructions and deliverables related to prepaid software licenses. This will allow for additional oversight over the recording of prepayment liabilities.

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

Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
OFM	14-01	Departmental Standards of Conduct				14-01
OFM	14-02	Inadequate Review of Component Statement of Net Cost Templates				14-02
OFM	14-03	Non-Compliance with Financial Disclosure Filing Requirements and Ethics Training Requirements				14-03
OFM	14-04	Non-Compliance with Federal Manager's Financial Integrity Act of 1982			H	
OFM	14-05	Advances and Prepayments				14-04
OFM	14-06	Closing Package	Note 1			

¹Disposition 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>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 A

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