

OFFICE OF INSPECTOR GENERAL

**Science and Technology
Directorate's Management
Letter for DHS' FY 2014
Financial Statements Audit**



Homeland
Security

**April 21, 2015
OIG-15-73**



HIGHLIGHTS

Science and Technology Directorate's Management Letter for DHS' FY 2014 Financial Statements Audit

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

What We Found

KPMG LLP reviewed the Science and Technology Directorate's (S&T) 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 S&T 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

APR 21 2015

MEMORANDUM FOR: Richard Williams
Chief Financial Officer
Science and Technology Directorate

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

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

Attached for your information is our final report, *Science and Technology 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 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, Science and Technology 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 Science and Technology Directorate (S&T) is a component of DHS. During our audit we noted certain matters involving internal control and other operational matters, related to S&T, 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 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 S&T'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

Science and Technology Directorate
Table of Financial Management Comments
September 30, 2014

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

Comment Reference	Subject	Page
FMC 14-01	Undelivered Orders Analysis	2
FMC 14-02	Untimely Recording of Obligation Activity to the General Ledger	2
FMC 14-03	Statement of Net Cost	2
FMC 14-04	Unfilled Customer Orders	2

APPENDIX

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

Science and Technology Directorate
Financial Management Comments
September 30, 2014

FMC 14-01 – Undelivered Orders Analysis (*Notice of Finding and Recommendation (NFR) No. Science and Technology Directorate (S&T) 14-01*)

Controls were not operating effectively to track and monitor undelivered order balances and activity. Specifically, we noted a DHS Working Capital Fund obligation was assigned the incorrect status during the undelivered order analysis review.

Recommendation:

We recommend that S&T improve processes with program offices to ensure that during the undelivered order verification and validation, undelivered orders are assigned to the correct status.

FMC 14-02 – Untimely Recording of Obligation Activity to the General Ledger (*NFR No. S&T 14-02*)

Controls were not operating effectively to ensure obligation activity was supported by appropriate documentation and was recorded timely to the general ledger upon execution of obligations or notification of credits received via the Intra-Governmental Payment and Collection process.

Recommendation:

We recommend that S&T improve processes with program offices to ensure the timely recording of obligations.

FMC 14-03 – Statement of Net Cost (*NFR No. S&T 14-03*)

Policies and procedures were not in place to ensure that the statement of net cost footnote was accurately presented in accordance with the allocation methodology prior to submission to DHS Office of Financial Management.

Recommendation:

We recommend that S&T implement policies and procedures to review Statement of Net Cost template to ensure proper allocation of costs in accordance with the approved component methodology.

FMC 14-04 – Unfilled Customer Orders (*NFR No. S&T 14-04*)

S&T lacked sufficient policies and procedures that document the processes and controls in place to ensure unfilled customer order balances existed and were recorded timely and appropriately in the general ledger. Specifically, we determined that a \$26.4 million unfilled customer order balance recorded in the general ledger as of September 30, 2014 was not accurate and should not have been recorded as an unfilled customer order.

Science and Technology Directorate
Financial Management Comments
September 30, 2014

Recommendation:

We recommend that S&T implement policies and procedures to ensure all unfilled customer orders recorded in the general ledger are supported by a valid customer order.

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

Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
S&T	14-01	Undelivered Orders Analysis				14-01
S&T	14-02	Untimely Recording of Obligation Activity to the General Ledger				14-02
S&T	14-03	Statement of Net Cost				14-03
S&T	14-04	Unfilled Customer Orders				14-04

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
Report Distribution

Department of Homeland Security

Secretary
Deputy Secretary
Chief of Staff
General Counsel
Executive Secretary
Director, GAO/OIG Liaison Office
Assistant Secretary for Office of Policy
Assistant Secretary for Office of Public Affairs
Assistant Secretary for Office of Legislative Affairs

Science and Technology

Under Secretary
Chief of Staff
Chief Financial Officer
Audit Liaison

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees

ADDITIONAL INFORMATION AND COPIES

To view this and any of our other reports, please visit our website at: www.oig.dhs.gov.

For further information or questions, please contact Office of Inspector General Public Affairs at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov. Follow us on Twitter at: @dhsoig.



OIG HOTLINE

To report fraud, waste, or abuse, visit our website at www.oig.dhs.gov and click on the red "Hotline" tab. If you cannot access our website, call our hotline at (800) 323-8603, fax our hotline at (202) 254-4297, or write to us at:

Department of Homeland Security
Office of Inspector General, Mail Stop 0305
Attention: Hotline
245 Murray Drive, SW
Washington, DC 20528-0305