

**Office of Financial
Management's
Management Letter for
DHS' Fiscal Year 2016
Financial Statements
Audit**





DHS OIG HIGHLIGHTS

Office of Financial Management's Management Letter for DHS' Fiscal Year 2016 Financial Statements Audit

June 29, 2017

Why We Did This Report

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.

During the fiscal year (FY) 2016 audit of DHS' consolidated financial statements and internal control over financial reporting, KPMG LLP noted certain matters involving the Office of Financial Management's internal control and other operational matters.

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, under contract with the DHS Office of Inspector General, audited the Office of Financial Management's (OFM) financial statements and internal control over financial reporting for FY 2016. The resulting management letter contains four observations related to internal controls and other operational matters which are presented in this report for management's consideration. KPMG LLP noted internal control deficiencies in several processes including financial disclosure reviews; designation of intra-governmental transactions as non-acquisition; reconciliation of unfilled customer order and undelivered order balances; and inadequate review of closing package notes. These deficiencies are not considered significant and were not required to be reported in the *Independent Auditors' Report on DHS' FY 2016 Financial Statements and Internal Control over Financial Reporting*, dated November 14, 2016, included in the DHS FY 2016 *Agency Financial Report*.




OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

June 29, 2017

MEMORANDUM FOR: Jeffrey Bobich
Director, Office of Financial Management
Office of Chief Financial Officer

FROM: John V. Kelly 
Deputy Inspector General

SUBJECT: *Office of Financial Management's Management Letter
for DHS' Fiscal Year 2016 Financial Statements
Audit*

Attached for your information is our final report, *Office of Financial Management's Management Letter for DHS' Fiscal Year 2016 Financial Statements Audit*. This report contains four observations related to internal control deficiencies that were not required to be reported in our *Independent Auditors' Report on DHS' FY 2016 Financial Statements and Internal Control over Financial Reporting*, dated November 14, 2016, which was included in the Department of Homeland Security's (DHS) fiscal year (FY) 2016 *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 2016 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 8, 2016

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:

We planned and performed our audit of the consolidated financial statements (hereinafter referred to as the "financial statements") of the U.S. Department of Homeland Security (DHS or Department), as of and for the year ended September 30, 2016, 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. 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 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 standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the internal control requirements included in OMB Bulletin No. 15-02.

During our audits we noted certain matters involving the Office of Financial Management's (OFM) internal control and other operational matters 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 observations and recommendations are summarized in Exhibit I of this letter and are not considered significant deficiencies or material weaknesses in internal control over financial reporting. Significant deficiencies and material weaknesses in internal control over financial reporting have been previously communicated to the DHS Office of Inspector General (OIG) and management in our *Independent Auditors' Report*, dated November 14, 2016, included in the fiscal year 2016 DHS *Agency Financial Report*.

Deficiencies related to OFM information technology (IT) controls will be presented in a separate letter to the DHS Office of Inspector General, OFM Chief Information Officer, and OFM 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 OFM's organization gained during our work to make comments and suggestions that should 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, 2016

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FMC 16-01 – Ineffective Controls over Review of Financial Disclosure Forms (NFR No. OFM 16-01)

Controls over the submission and review of Office of Government Ethics (OGE)-278 and OGE-450, public and confidential financial disclosure forms, were not operating effectively. Specifically, during our testwork over filings, we noted:

- For 23 of the 25 OGE-278 samples tested, the final review/certification was untimely.
- For 37 of the 45 OGE-450 samples tested, the final review/certification was untimely.
- During testwork over financial disclosure forms at seven components, we identified findings related to financial disclosure processes at seven components (U.S. Coast Guard (USCG), Federal Emergency Management Agency (FEMA), Customs and Border Protection (CBP), Transportation Security Administration (TSA), Immigration and Customs Enforcement (ICE), U.S. Citizenship and Immigration Services (USCIS), and U.S. Secret Service (USSS). These findings included untimely submission and review.

Recommendation:

The Ethics Office will continue to improve staffing and streamline its processes and procedures to ensure that all review and certifications occur within the timelines established by OGE.

FMC 16-02 – Ineffective Controls over Designation of Intra-Governmental Transactions as Non-Acquisition (NFR No. OFM 16-02)

Controls over non-acquisition intra-governmental transactions were not operating effectively. Specifically, at TSA, we noted two reimbursable agreements (one related to rent with the General Services Administration and one related to the DHS Working Capital Fund) that were approved by the Budget Director in lieu of a Contracting Officer; however, the documentation designating these transactions as non-acquisition in nature was unavailable.

Recommendation:

DHS should update its financial management policies, to include specific guidance about documentation form and retention that components must maintain for all non-acquisition transactions.

FMC 16-03 – Intra-departmental Reconciliation of Unfilled Customer Order and Undelivered Order Balances (NFR No. OFM 16-04)

Controls were not operating effectively to ensure all DHS components reported complete and accurate intra-departmental unfilled customer orders and undelivered order balances timely to assist with Management Directorate's (MGMT) reconciliation and resolution of reconciling differences.

Recommendation:

OFM should continue to work with MGMT and components to ensure timely and accurate submission of documentation for the reconciliation.

Office of Financial Management
Financial Management Comments and Recommendations
September 30, 2016

FMC 16-04 – Inadequate Review of the Closing Package Notes, Including the Lines Loaded Report (NFR No. OFM 16-05)

DHS did not establish sufficient internal controls to ensure that the amounts presented in the closing package notes, including the Lines Loaded Report were accurately presented, per the instructions contained in *Treasury Financial Manual (TFM) Chapter 4700*. Specifically, we noted the following:

- Inaccurate presentation of GF006 Footnote 3, Accounts and Taxes Receivable, Net
- Inaccurate presentation of GF006 Footnote 6, Property, Plant, and Equipment (PP&E)
- Inaccurate presentation of GF006 Footnote 19, Collections and Refunds of Non-exchange Revenue
- Inaccurate and incomplete presentation of the Governmentwide Treasury Account Symbol Adjusted Trial Balance System Closing Package Lines Loaded Report

Recommendation:

OFM should improve controls over financial reporting for the closing package financial statements to ensure that accompanying notes are accurately prepared in accordance with the instructions contained in *TFM Chapter 4700*.

Office of Financial Management
 Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2016

| NFR No. | Description | Disposition ¹ | | | FMC No. |
|---------|---|--------------------------|----|----|---------|
| | | IAR | | | |
| | | MW | SD | NC | |
| 16-01 | Ineffective Controls over Review of Financial Disclosure Forms | | | | 16-01 |
| 16-02 | Ineffective Controls over Designation of Intra-Governmental Transactions as Non-Acquisition | | | | 16-02 |
| 16-03 | Non-Compliance with Federal Manager's Financial Integrity Act of 1982 | | | G | |
| 16-04 | Intra-departmental Reconciliation of Unfilled Customer Order and Undelivered Order Balances | | | | 16-03 |
| 16-05 | Inadequate Review of the Closing Package Notes, Including the Lines Loaded Report | | | | 16-04 |

¹Disposition Legend:

IAR Independent Auditors' Report dated November 14, 2016

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 Information Technology Controls and Financial System Functionality

B Financial Reporting

C Property, Plant, and Equipment

D Entity-Level Controls

E Grants Management

F Custodial Revenue and Refunds and Drawback

G *Federal Managers' Financial Integrity Act of 1982*H *Single Audit Act Amendments of 1996*I *Antideficiency Act, as amended*J *Federal Financial Management Improvement Act of 1996*



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B
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