

OFFICE OF INSPECTOR GENERAL

**Office of Intelligence and Analysis
and Office of Operations
Coordination's Management Letter
for DHS' FY 2014 Financial
Statements Audit**



Homeland
Security

**April 29, 2015
OIG-15-82**



HIGHLIGHTS

Office of Intelligence and Analysis and Office of Operations Coordination's Management Letter for DHS' FY 2014 Financial Statements Audit

April 29, 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 Intelligence and Analysis (I&A) and the Office of Operations Coordination's (OPS) 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 I&A/OPS 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 29 2015

MEMORANDUM FOR: Mary Peterson
Chief Financial Officer
Office of Intelligence and Analysis

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

SUBJECT: *Office of Intelligence and Analysis and Office of Operations Coordination's Management Letter for DHS' FY 2014 Financial Statements Audit*

Attached for your information is our final report, *Office of Intelligence and Analysis and Office of Operations Coordination'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, Office of Intelligence & Analysis and Office of Operations
Coordination
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 Intelligence & Analysis (I&A) and Office of Operations Coordination (OPS) (I&A/OPS) is a component of DHS. During our audit we noted certain matters involving internal control and other operational matters, related to I&A/OPS, 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 I&A/OPS'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

Office of Intelligence & Analysis and Office of Operations Coordination
Financial Management Comments
September 30, 2014

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

Comment Reference	Subject	Page
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APPENDIX

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FMC 14-01 – Invalid and Inaccurate Undelivered Orders (*Notice of Finding and Recommendation (NFR) No. Office of Intelligence & Analysis (I&A) and Office of Operations Coordination (OPS) (I&A/OPS) (MGA or I&A/OPS) 14-01*)

We determined controls over the undelivered order verification and validation were not operating effectively as of June 30, 2014. We selected a statistical sample of six items from the “active” sub-population (based on I&A/OPS’ designation) and noted that two of the “active” undelivered orders had periods of performance that had expired or had no activity against the obligation within the last 12 months and management incorrectly categorized them as “Status 2” rather than “Status 3” or “Status 4.”

Recommendation:

We recommend that MGA work with Federal Law Enforcement Training Centers (FLETC) and the servicing Procurement Office for adequate review of undelivered orders to ensure undelivered orders are properly coded and categorized in the quarterly undelivered order analysis verification and validation report.

FMC 14-02 – Procurement Information System for Management (PRISM) to Momentum Reconciliation (*NFR No. MGA 14-02*)

During walkthroughs, we noted that FLETC was not performing a reconciliation of PRISM obligations to obligations recorded in Momentum for MGA. We noted that FLETC was performing a reconciliation of USASpending data to Momentum; however we noted that the USASpending did not include all activity in PRISM and was not reconciled against PRISM.

As a result of the above finding, FLETC performed a reconciliation of PRISM to Momentum at year-end, covering fiscal year (FY) 2008 through FY 2014, which identified immaterial differences between PRISM and Momentum. During our testing of this reconciliation, we noted one item recorded in both PRISM and Momentum at \$380,000; however, the item was entered as \$3.8 million on the reconciliation, but no difference was identified due to a formula error in the reconciliation.

Recommendation:

We recommend that FLETC use the PRISM Reports, in addition to the USASpending data to reconcile obligations.

Office of Intelligence & Analysis and Office of Operations Coordination
Financial Management Comments
September 30, 2014

FMC 14-03 – Untimely Recording of Undelivered Orders (NFR No. MGA 14-04)

During testwork over a sample of seven undelivered order credit transactions for the period October 1, 2013 through September 30, 2014, we identified one sample item that was properly approved by contracting in March of 2014; however the obligation was not recorded into Momentum until August 2014. We noted the amount of the unrecorded obligation was \$2.9 million, which was not recorded timely and thus was not included in the undelivered order balance as of June 30, 2014.

Recommendation:

We recommend that MGA continue to follow-up outstanding commitments/purchase requests for signed copies of interagency agreements and/or contracts and submit them to FLETC for timely recording of obligations.

FMC 14-04 – Statement of Net Cost Methodology (NFR No. MGA 14-05)

In reviewing MGA's FY 2014 manual statement of net cost financial statement and footnote template, we noted that the way MGA aligned their activities and missions changed from FY 2013 to FY 2014 as the percentage allocations for each mission were different and did not align with the programs/missions in the approved strategic plan.

Recommendation:

We recommend that MGA work with FLETC, their financial service provider, and the DHS Chief Financial Officer Program Analysis and Evaluation office to ensure the manual statement of net cost template allocations by DHS strategic goal aligns with the current DHS Strategic Plan.

Office of Intelligence & Analysis and Office of Operations Coordination
 Crosswalk - Financial Management Comments to Active NFRs
 September 30, 2014

Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
MGA	14-01	Invalid and Inaccurate Undelivered Orders				14-01
MGA	14-02	PRISM to Momentum Reconciliation				14-02
MGA	14-03	Potential Anti-Deficiency Violation			J	
MGA	14-04	Untimely Recording of Undelivered Orders				14-03
MGA	14-05	Statement of Net Cost Methodology				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 *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*I *Single Audit Act Amendments of 1996*J *Antideficiency Act, as amended (ADA)*K *Federal Financial Management Improvement Act of 1996 (FFMIA)*



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Appendix B **Report Distribution**

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