

Department of Homeland Security **Office of Inspector General**

Science and Technology Directorate's Management
Letter for FY 2012 DHS Consolidated Financial
Statements Audit





OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

APR 5 2013

MEMORANDUM FOR: Richard Williams
Director of Finance and Budget
Science and Technology Directorate

FROM: Anne L. Richards 
Assistant Inspector General for Audits

SUBJECT: *Science and Technology Directorate's Management Letter
for FY 2012 DHS Consolidated Financial Statements Audit*

Attached for your information is our final report, *Science and Technology Directorate's Management Letter for FY 2012 DHS Consolidated 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 2012 Financial Statements and Internal Control over Financial Reporting*. Internal control deficiencies that are considered significant deficiencies were reported, as required, in the *Independent Auditors' Report*, dated November 14, 2012, which was included in the DHS FY 2012 *Annual 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 2012 financial statements and is responsible for the attached management letter dated March 12, 2013, and conclusions expressed in it. We do not express opinions on DHS' financial statements or internal control, nor do we provide conclusions on compliance with laws and regulations.

Please call me with any questions, or your staff may contact Mark Bell, Deputy Assistant Inspector General for Audits, at (202) 254-4100.

Attachment



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

March 12, 2013

Office of Inspector General
U.S. Department of Homeland Security, and
Chief Financial Officer,
U.S. Department of Homeland Security Science & Technology Directorate
Washington, DC

Ladies and Gentlemen:

We have audited the balance sheet of the U.S. Department of Homeland Security (DHS or Department) as of September 30, 2012 and the related statements of net cost, changes in net position and custodial activity, and combined statement of budgetary resources for the year then ended (referred to herein as the “fiscal year (FY) 2012 financial statements”). The objective of our audit was to express an opinion on the fair presentation of these financial statements. We were also engaged to examine the Department’s internal control over financial reporting of the FY 2012 financial statements, based on the criteria established in Office of Management and Budget (OMB), Circular No. A-123, *Management’s Responsibility for Internal Control*, Appendix A.

Our *Independent Auditors’ Report*, issued on November 14, 2012, describes a limitation on the scope of our audit that prevented us from performing all procedures necessary to express an unqualified opinion on the DHS’ FY 2012 financial statements and internal control over financial reporting. In addition, the FY 2012 DHS *Secretary’s Assurance Statement* states that the Department was able to provide qualified assurance that internal control over financial reporting was operating effectively at September 30, 2012. We have not considered internal control since the date of our *Independent Auditors’ Report*.

In accordance with *Government Auditing Standards*, our *Independent Auditors’ Report*, referred to in the paragraph above, included internal control deficiencies identified during our audit, that individually, or in aggregate, represented a material weakness or a significant deficiency.

The Science & Technology Directorate (S&T) is a component of DHS. We noted certain matters, related to S&T, that are summarized in the Table of Financial Management Comments on the following pages, involving internal control and other operational matters that are less severe than a material weakness or a significant deficiency, and consequently are reported separately to the Office of Inspector General (OIG) and S&T management in this letter. 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. The disposition of each internal control deficiency identified during our FY 2012 audit – as either reported in our *Independent Auditors’ Report*, or herein – is presented in Appendix A. The status of internal control deficiencies identified during our FY 2011 audit is presented in Appendix B.



We would be pleased to discuss these comments and recommendations with you at any time. This report is intended for the information and use of the DHS' and S&T's management, the DHS OIG, the U.S. OMB, the U.S. Congress, and the Government Accountability Office, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Science & Technology Directorate
Table of Financial Management Comments
September 30, 2012

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FMC 12-01 – Federal Financial Management System (FFMS) to Purchase Request Information System (PRISM) Reconciliation (NFR No. S&T 12-01)

Science & Technology Directorate (S&T) uses PRISM—a procurement module outside of FFMS—to initiate obligations. Since PRISM does not interface with the general ledger (GL) system, FFMS, S&T financial management personnel manually record obligations from PRISM into FFMS. As a result, there is a risk that obligations initiated in PRISM are not completely or accurately recorded in FFMS.

S&T does not have policies and procedures in place to reconcile obligation information from PRISM to FFMS.

Recommendation:

We recommend that S&T develop and implement policies and procedures to reconcile obligation data between FFMS and PRISM.

FMC 12-02 – Inadequate Controls and Procedures over Recording and Reporting Personal Property (NFR No. S&T 12-02)

S&T oversees six national research laboratories and contracts with outside entities to manage certain functions of the laboratories. Contractors purchase laboratory equipment and are reimbursed by S&T for the expense. S&T reports the equipment as property, plant and equipment (PP&E) based on its capitalization requirements.

During the walkthrough of the S&T property process, we noted that there is a lack of supervisory review controls to verify the accuracy of the information that is recorded into Sunflower Asset Management System (SAMS). S&T performs occasional inspections, but there is no consistent review of information at the point at which it is recorded into SAMS.

During interim audit procedures over personal property, we noted that S&T recorded the addition of an item of scientific equipment in fiscal year (FY) 2012 that was received in FY 2011. The equipment had been purchased by the contractor for National Biodefense Analysis and Countermeasures Center, who was subsequently reimbursed by S&T.

Recommendation:

We recommend that S&T develop and implement internal controls to identify and record additions to PP&E in a timely manner and that the procedures include consideration for S&T assets purchased or held by contractors.

FMC 12-03 – Inadequate Internal Controls over Reporting of Construction In Progress (CIP) and Buildings (NFR No. S&T 12-03)

S&T's Office of National Laboratories contracts with Federal Law Enforcement Training Center (FLETC) to construct buildings, structures and leasehold improvements. Invoices are submitted along with a summary checklist which certifies that (1) only capitalizable PP&E costs have been captured, (2) contract identification numbers have been provided, (3) supporting documentation such as invoices have been provided or maintained for audit and review, (4) both direct and indirect PP&E costs have been captured for the quarter, (5) contract modifications have been

included, and (6) S&T asset management personnel have been informed of any contract close-outs. The checklist is prepared by the project manager and reviewed by S&T asset management personnel and S&T Financial Operations. Immigration and Customs Enforcement (ICE) Office of Financial Management (OFM) provides financial reporting services for S&T and records S&T's asset additions.

During testwork over a sample of eight real property additions as of June 30, 2012, for all sample items, we noted that the CIP checklist was not reviewed and approved by all required supervisors until after the addition was recorded into GL by ICE OFM.

Recommendation:

We recommend that S&T strengthen its internal controls to identify and record additions to construction in progress and buildings. We recommend that S&T consistently use the CIP checklist to track and record construction costs and that the supervisory review of the checklist occurs before entry into the GL.

FMC 12-04 – Inadequate Documentation of Inventory Procedures (NFR No. S&T 12-04)

S&T performs an annual inventory of all capitalizable and accountable personal property. S&T Office of the Chief Administrative Officer is responsible for issuing guidance related to the annual inventory and monitoring and reporting the results. Property custodians are responsible for the day-to-day accountability for assets and, in order to ensure segregation of duties, are prohibited from performing the inventory for assets for which they are responsible.

We reviewed seven inventory certification letters for S&T and noted that the documentation provided for five sites was not adequate to determine if there was segregation of duties as required by the DHS Personal Property Asset Management Manual.

Recommendation:

We recommend that S&T implement policies and procedures to enforce and document adequate segregation of duties during the annual inventory.

FMC 12-05 – Inadequate Unfilled Customer Order (UCO) Review (NFR No. S&T 12-05)

During our testwork over the September 30, 2012 UCO balances, we selected 15 open balances and noted the following:

- One sample item was a duplicate agreement for \$4.8 million that was input into FFMS in May 2012 and not identified to be removed until after September 30, 2012.
- One sample item was a reimbursable agreement in which the customer agency provided S&T with two year funds (09/10). At the end of FY 2012, the carryover balance was not properly reduced, and as a result, the amount obligated on the corresponding undelivered order (UDO) exceeded the UCO.

Recommendations:

We recommend that S&T:

- Strengthen its quarterly UCO review procedures to adequately review and adjust UCO balances with customer agencies.

- Improve communication between financial management and field office personnel so that the conclusions about each balance are clearly documented.

FMC 12-06 – Inadequate Policies and Procedures for Identifying Heritage Assets (NFR No. S&T 12-06)

We determined that controls are not properly designed to identify and report heritage assets.

Recommendations:

We recommend that S&T:

- Strengthen its policies and procedures related to the review for heritage assets.
- Improve communication between financial managers and field office personnel to timely identify and report heritage assets.

Science & Technology Directorate
 Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2012

NFR No.	Description	Disposition ¹			
		IAR			FMC
		MW	SD	NC	No.
12-01	Federal Financial Management System (FFMS) to Purchase Request Information System (PRISM) Reconciliation				12-01
12-02	Inadequate Controls and Procedures over Recording and Reporting Personal Property				12-02
12-03	Inadequate Internal Controls over reporting of Construction in Progress (CIP) and buildings				12-03
12-04	Inadequate Documentation of Inventory Procedures				12-04
12-05	Inadequate Unfilled Customer Order (UCO) Review				12-05
12-06	Inadequate Policies and Procedures for Identifying Heritage Assets				12-06

¹Disposition Legend:

IAR Independent Auditors' Report dated November 14, 2012

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 System Functionality

C Property, Plant, and Equipment

D Environmental and Other Liabilities

E Budgetary Accounting

F Entity-Level Controls

G Grants Management

H Custodial Revenue and Drawback

I *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*J *Federal Financial Management Improvement Act of 1996 (FFMIA)*K *Single Audit Act Amendments of 1996*L *Antideficiency Act, as amended (ADA)*

Science & Technology Directorate
Status of Prior Year NFRs
 September 30, 2012

NFR No.	Description	Disposition ¹	
		Closed ²	Repeat (2011 NFR No.)
11-01	Inadequate Internal Controls over Reporting of Construction in Progress (CIP) and Buildings		S&T 12-01
11-02	Untimely De-obligation of Undelivered Orders (UDOs)	X	
11-03	Inadequate Controls over New Hire Ethics Briefings	X	
11-04	Insufficient Internal Controls to Ensure Timely Reporting of Internal Use Software (IUS) in Development and Personal Property	X	

¹ KPMG was engaged to perform an audit over the DHS balance sheet as of September 30, 2012, and the related statements of net cost, changes in net position and custodial activity, and combined statement of budgetary resources for the year then ended. In addition, we were engaged to followup on the status of all active NFRs that supported significant deficiencies reported in our FY 2011 *Independent Auditors' Report*.

² The scope of our audit was limited to follow-up on NFRs that supported a material weakness or significant deficiency as reported in our *Independent Auditors' Report*. All other NFRs, e.g., that described insignificant findings, and therefore presented to DHS management as observations for consideration, were considered closed.



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Appendix C
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Should you be unable to access our website, you may submit your complaint in writing to: DHS Office of Inspector General, Attention: Office of Investigations Hotline, 245 Murray Drive, SW, Building 410/Mail Stop 2600, Washington, DC, 20528; or you may call 1 (800) 323-8603; or fax it directly to us at (202) 254-4297.

The OIG seeks to protect the identity of each writer and caller.