

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

Domestic Nuclear Detection Office'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: Patrick Moore
Chief Financial Officer
Domestic Nuclear Detection Office

FROM: Anne L. Richards 
Assistant Inspector General for Audits

SUBJECT: *Domestic Nuclear Detection Office's Management Letter
for FY 2012 DHS Consolidated Financial Statements Audit*

Attached for your information is our final report, *Domestic Nuclear Detection Office'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 Domestic Nuclear Detention Office
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 Domestic Nuclear Detection Office (DNDO) is a component of DHS. We noted certain matters, related to DNDO, 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 DNDO 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.

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 DNDO’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

Domestic Nuclear Detection Office
Table of Financial Management Comments
September 30, 2012

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

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APPENDIX

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FMC 12-01 – Deficiencies in the Operating Expense Process (NFR Nos. DNDO 12-01 and DNDO 12-01a)

During testwork over operating expenses for the period October 1, 2011 to March 31, 2012, we noted the following:

- For 33 out of 33 expenses, the Core Accounting System did not record Accounts Payable (United States Standard General Ledger (USSGL) account 2110), Delivered Orders – Obligations, Unpaid (4901), and the relevant asset or expense account at the time goods or services are received. Instead, the Core Accounting System records Delivered Orders – Obligations, Paid (4902) and the related asset or expense account at the time payment is made. Domestic Nuclear Detection Office (DNDO) instead records an estimated accrual for assets, expenses, and accounts payable related to the goods or services that have been received, but not yet paid for. As a result, the items are not recorded in the general ledger (GL) until paid for.
- For 17 out of 33 expenses, Intragovernmental Payment And Collection (IPACs) do not require contracting officer (CO), contracting officer's technical representative (COTR), or Authorized Certifying Official (ACO) approval prior to the funds transfer. Therefore, DNDO was unable to provide documentation of when goods/services were received.
- For 4 out of 33 expenses, DNDO associated the incorrect trading partner identification numbers with Federal vendors.

During testwork over operating expenses for the period April 1, 2012 – August 31, 2012, we noted the following:

- For 18 out of 18 expenses, the Core Accounting System did not record Accounts Payable (USSGL account 2110), Delivered Orders – Obligations, Unpaid (4901), and the relevant asset or expense account at the time goods or services are received. Instead, the Core Accounting System records Delivered Orders – Obligations, Paid (4902) and the related asset or expense account at the time payment is made. DNDO instead records an estimated accrual for assets, expenses, and accounts payable related to the goods or services that have been received, but not yet paid for. As a result, the items are not recorded in the GL until paid for.
- For 6 out of 18 expenses, IPACs do not require CO, COTR, or ACO approval prior to the funds transfer. Therefore, DNDO was unable to provide documentation of when goods/services were received.
- For 3 out of 18 expenses, DNDO was unable to provide sufficient supporting documentation for invoices for the Grant samples transaction amount.

During testwork over operating expenses for the period September 1, 2012 – September 30, 2012, we noted the following:

- For 3 out of 3 expenses, the Core Accounting System did not record Accounts Payable (USSGL account 2110), Delivered Orders – Obligations, Unpaid (4901), and the relevant asset or expense account at the time goods or services are received. Instead, the Core Accounting System records Delivered Orders – Obligations, Paid (4902) and the related asset or expense account at the time payment is made. DNDO instead records an estimated accrual for assets, expenses, and accounts payable related to the goods or services that have been received, but not yet paid for. As a result, the items are not recorded in the GL until paid for.

Domestic Nuclear Detection Office
Financial Management Comments
September 30, 2012

- For 1 out of 3 expenses, IPACs do not require CO, COTR, or ACO approval prior to the funds transfer. Therefore, DNDO was unable to provide documentation of when goods/services were received.
- For 1 out of 3 expenses, DNDO was unable to provide sufficient supporting documentation of invoices for the Grant samples transaction amount.

Recommendations:

We recommend that DNDO:

- Review the IPAC process to improve the validation and approval. The COTRs should record receipt of the services and approval of IPACs prior to the payment being posted.
- Continue to implement a process during month-end to ensure the Coast Guard Finance Center (FINCEN) is recording the reclassifications. Additionally, DNDO should continue to review the Journal Voucher (JV) prior to FINCEN recording the entry into the Core Accounting System until all obligations coded incorrectly are liquidated.

FMC 12-02 – Deficiencies Related to Monitoring Undelivered Orders (NFR No. DNDO 12-02)

During testwork over obligations for FY 2012, we noted the following:

- DNDO's service provider's financial system, the Core Account System does not have adequate transaction codes to process upward/downward adjustments. Manual JV reclassifications are made to record GL 4801, GL 4871, GL 4310 and GL 4590 for the prior year recovery activity. DNDO does not have a process to separately capture upward adjustments (GL 4881, 4882, 4981, and 4982) that are part of the GL 4801 or GL 4901 balance.
- During their quarterly obligation review, management does not request sufficient support to determine if open obligations are valid.
- During testwork over aged undelivered orders (UDOs) as of September 30, 2012, for 3 out of 5 UDOs, the obligation was determined to be invalid as of September 30, 2012. This resulted in an overstatement of UDOs in the amount of approximately \$342,000 and a likely overstatement of approximately \$23,574,000.

Recommendation:

We recommend that DNDO prioritize reviewing aged UDOs and work closely with the Office of Procurement Operations to close out all aged UDOs with expired periods of performance.

Domestic Nuclear Detection Office
Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2012

| NFR No. | Description | Disposition ¹ | | | |
|---------|--|--------------------------|----|----|-------|
| | | IAR | | | FMC |
| | | MW | SD | NC | No. |
| 12-01 | Deficiencies in the Operating Expense Process | | | | 12-01 |
| 12-01a | Deficiencies in the Operating Expense Process | | | | 12-01 |
| 12-02 | Deficiencies related to Monitoring Undelivered Orders (UDOs) | | | | 12-02 |

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 | <i>Federal Managers' Financial Integrity Act of 1982 (FMFIA)</i> |
| J | <i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i> |
| K | <i>Single Audit Act Amendments of 1996</i> |
| L | <i>Antideficiency Act, as amended (ADA)</i> |



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Appendix B
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