

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

Office of Intelligence and Analysis'  
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](http://www.oig.dhs.gov)

APR 10 2013

MEMORANDUM FOR: Christopher Button  
Chief of Staff  
Office of Intelligence and Analysis

FROM: Anne L. Richards *Anne L. Richards*  
Assistant Inspector General for Audits

SUBJECT: *Office of Intelligence and Analysis' Management Letter for  
FY 2012 DHS Consolidated Financial Statements Audit*

Attached for your information is our final report, *Office of Intelligence and Analysis' 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 Intelligence & Analysis and Operations  
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 Intelligence & Analysis (I&A) and Operations (OPS) (I&A/OPS) is a component of DHS. We noted certain matters, related to I&A/OPS, 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 I&A/OPS 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 I&A/OPS’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**

Intelligence & Analysis and Operations  
*Table of Financial Management Comments*  
September 30, 2012

**TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)**

<b>Comment Reference</b>	<b>Subject</b>	<b>Page</b>
FMC 12-01	Undelivered Order (UDO) Validity	2
FMC 12-02	Deficiencies in the Payroll Process	3

**APPENDIX**

<b>Appendix</b>	<b>Subject</b>	<b>Page</b>
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**FMC 12-01 – Undelivered Order (UDO) Validity (NFR No. I&A/OPS 12-01)**

We selected a statistical sample of 17 items from the population of UDOS as of October 1, 2011. Based on our review of these items, we noted that for 5 of the 17 UDOS tested, the contract/agreement period of performance (POP) had ended and the contract/agreement was no longer valid; however, the unused balances for these items were not properly de-obligated. Additionally, we noted that for 1 of the 17 UDOS tested, the amount of the original obligation recorded was less than the supporting documentation, resulting in an understatement of the UDO balance.

We selected a statistical sample of 12 items from the population of UDOS as of August 31, 2012. Based on our review of these items, we noted that for 4 of 12 UDOS tested, the contract/agreement POP had ended and the contract/agreement was no longer valid; however, the unused balances were not properly de-obligated.

As a result of the August 31, 2012 errors, we performed testwork over UDOS as of September 30, 2012. We obtained the population of UDOS as of September 30, 2012, and based on the noted general ledger (GL) date, separated the population into stale (no fiscal year (FY) 2012 activity) and non-stale (with FY 2012 activity) UDOS. We removed the errors identified in our beginning balance testwork and August 31, 2012 testwork, and selected a statistical sample of 28 items. Based on our review of these items, we noted that for 12 of 28 UDOS tested, the contract/agreement POP had ended and the contract/agreement was no longer valid; however, the unused balances were not properly de-obligated.

As a result of the September 30, 2012 errors, we removed all items selected in our September 30, 2012 sample from the population of stale UDOS and provided this to I&A/OPS to clean-up for re-testing. I&A/OPS reviewed the population and determined which UDOS they considered valid and which were invalid. We selected a statistical sample of 3 items from the population of stale UDOS I&A considers valid and a statistical sample of 3 items from the population of stale UDOS OPS considers valid. Based on our review of these items, we noted for 2 of the 3 UDOS tested for I&A, the contract/agreement POP had ended and the contract/agreement was no longer valid; however, the unused balances were not properly de-obligated. We noted all 3 UDOS tested for OPS were valid.

*Recommendations:*

We recommend that I&A/OPS:

- Work with Federal Law Enforcement Training Center (FLETC) and the Office of Procurement Operations to ensure that an adequate review of obligated balances is performed and that unused balances are properly de-obligated.
- Work with FLETC and Office of Procurement Operations to enhance the existing system of monitoring contracts with periods of performance that are set to expire.

**FMC 12-02 – Deficiencies in the Payroll Process (NFR No. I&A/OPS 12-03)**

During our payroll testwork, we identified three employees for which the I&A/OPS's servicing human capital office, the DHS Office of Human Capital Officer, was unable to find the adequate documentation (Federal Employees' Group Life Insurance (FEGLI) and Federal Employees' Health Benefits (FEHB) election forms) and in two of those instances we were unable to recalculate their benefit contribution amounts.

*Recommendation:*

We recommend that I&A/OPS coordinate with Office of Human Capital Officer, in maintaining documentation for each employee in order to be able to obtain the documentation upon request and to verify changes made to FEGLI and FEHB elections are properly documented and agreed to the employee's Standard Form (SF)-50.

Intelligence & Analysis and Operations  
 Crosswalk – Financial Management Comments to Active NFRs  
 September 30, 2012

NFR No.	Description	Disposition <sup>1</sup>			
		IAR			FMC
		MW	SD	NC	No.
12-01	Undelivered Order (UDO) Validity				12-01
12-02	Potential Anti-deficiency Act (ADA) Violation			L	
12-03	Deficiencies in the Payroll Process				12-02

<sup>1</sup>Disposition 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>



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

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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.

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