

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

**Science and Technology Directorate's Management
Letter for FY 2013 DHS Financial Statements Audit**






OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

APR 28 2014

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 2013 DHS Financial Statements Audit*

Attached for your information is our final report, *Science and Technology Directorate's Management Letter for FY 2013 DHS Financial Statements Audit*. This report contains two comments and two recommendations related to internal control deficiencies that were not required to be reported in the *Independent Auditors' Report on DHS' FY 2013 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 December 11, 2013, which was included in the Department of Homeland Security's (DHS) fiscal year (FY) 2013 Agency Financial Report. We do not require management's response to the recommendations.

We contracted with the independent public accounting firm KPMG LLP (KPMG) to conduct the audit of the DHS' FY 2013 financial statements and internal control over financial reporting. The contract required that KPMG perform its audit according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG is responsible for the attached management letter dated January 15, 2014, and the conclusions expressed in it.

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

January 15, 2014

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

Ladies and Gentlemen:

We have audited the financial statements of the U.S. Department of Homeland Security (DHS or Department) for the year ended September 30, 2013 (referred to herein as the “fiscal year (FY) 2013 financial statements”), and have issued our report thereon dated December 11, 2013. In planning and performing our audit of the financial statements of DHS, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. In conjunction with our audit of the 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 Science and Technology Directorate (S&T) is a component of DHS. During our audit, we noted certain matters involving internal control and other operational matters, related to S&T, 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 2013 audit – as either reported in our *Independent Auditors’ Report*, or herein – 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 S&T’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

Science and Technology Directorate
Table of Financial Management Comments
September 30, 2013

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

Comment Reference	Subject	Page
FMC 13-01	Untimely Recording of Obligation Activity to the General Ledger	2
FMC 13-02	Undelivered Orders	2

APPENDIX

Appendix	Subject	Page
A	Crosswalk – Financial Management Comments to Active Notices of Finding and Recommendation (NFRs)	3

Science and Technology Directorate
Financial Management Comments
September 30, 2013

FMC 13-01 – Untimely Recording of Obligation Activity to the General Ledger (NFR No. Science and Technology Directorate (S&T) 13-01)

Controls were not fully effective to ensure obligation activity was recorded timely to the general ledger upon execution of obligations. Specifically, we noted nine instances in which the transaction was posted to the general ledger in a subsequent quarter, and ten instances in which the transaction was recorded more than two weeks after the contract execution date.

Recommendation:

We recommend that the S&T reinforce existing policies to ensure timely recording of obligation activity.

FMC 13-02 – Undelivered Orders (NFR No. S&T 13-02)

Controls were not operating effectively to ensure undelivered orders (UDO) activity was supported by appropriate and readily available documentation to verify that UDO activity was valid. Specifically, we noted one instance in which documentation to support UDO activity was not readily available for inspection.

Recommendation:

We recommend that S&T ensure policies and procedures are followed to ensure that UDO supporting documentation is properly maintained, and readily available, to support valid obligations.

Science and Technology Directorate
Crosswalk - Financial Management Comments to Active NFRs
 September 30, 2013

Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
S&T	13-01	Untimely Recording of Obligation Activity to the General Ledger				13-01
S&T	13-02	Undelivered Orders				13-02

¹Disposition Legend:

IAR	Independent Auditors' Report dated December 11, 2013
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	Liabilities
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

Appendix A
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Under Secretary
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Congress

Congressional Oversight and Appropriations Committees, as appropriate

ADDITIONAL INFORMATION

To view this and any of our other reports, please visit our website at: www.oig.dhs.gov.

For further information or questions, please contact Office of Inspector General (OIG) Office of Public Affairs at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov, or follow us on Twitter at: [@dhsoig](https://twitter.com/dhsoig).

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To expedite the reporting of alleged fraud, waste, abuse or mismanagement, or any other kinds of criminal or noncriminal misconduct relative to Department of Homeland Security (DHS) programs and operations, please visit our website at www.oig.dhs.gov and click on the red tab titled "Hotline" to report. You will be directed to complete and submit an automated DHS OIG Investigative Referral Submission Form. Submission through our website ensures that your complaint will be promptly received and reviewed by DHS OIG.

Should you be unable to access our website, you may submit your complaint in writing to:

Department of Homeland Security
Office of Inspector General, Mail Stop 0305
Attention: Office of Investigations Hotline
245 Murray Drive, SW
Washington, DC 20528-0305

You may also call 1(800) 323-8603 or fax the complaint directly to us at (202) 254-4297.

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