

# DEPARTMENT OF HOMELAND SECURITY

## Office of Inspector General

### Independent Auditor's Report on FLETC's FY 2007 Consolidated Financial Statements



**OIG-08-53**

**MAY 2008**

Office of Inspector General

U.S. Department of Homeland Security  
Washington, DC 20528



# Homeland Security

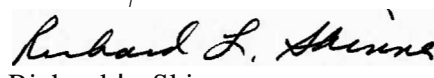
May 12, 2008

## Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the Homeland Security Act of 2002 (*Public Law 107-296*) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

The attached report presents the results of our audit of the Federal Law Enforcement Training Center's (FLETC) FY 2007 consolidated financial statements. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audit. The contract required that KPMG perform its audits according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG expressed an unqualified opinion on FLETC's consolidated financial statements for fiscal year (FY) 2007. The FY 2007 auditor's report discusses four significant deficiencies, one of which is considered a material weakness, as well as one instance of noncompliance with laws and regulations. KPMG is responsible for the attached auditor's report and the conclusions expressed in the report. We do not express opinions on FLETC's financial statements or internal control or provide conclusions on compliance with laws and regulations.

The recommendations herein have been discussed with those responsible for implementation. It is our hope that this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

  
Richard L. Skinner  
Inspector General



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

Inspector General  
U.S. Department of Homeland Security

Director  
The Federal Law Enforcement Training Center:

We have audited the accompanying consolidated balance sheets of the U.S. Department of Homeland Security's (DHS) Federal Law Enforcement Training Center (FLETC) as of September 30, 2007 and 2006, and the related consolidated statement of net cost and changes in net position, and combined statement of budgetary resources for the year ending September 30, 2007 (hereinafter referred to as "consolidated financial statements"). The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2007 audit, we also considered the FLETC's internal controls over financial reporting and performance measures and tested the FLETC's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated financial statements. We were not engaged to audit the accompanying consolidated statements of net cost, changes in net position, and combined statement of budgetary resources, for the year ended September 30, 2006 (referred to herein as "other fiscal year 2006 financial statements").

### SUMMARY

As stated in our opinion on the consolidated financial statements, we concluded that the FLETC's consolidated financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

In fiscal year 2007, the FLETC changed its method of reporting the reconciliation of budgetary resources to the net cost of operations, in accordance with Office of Management Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*.

Our consideration of internal controls over financial reporting resulted in the following conditions being identified as significant deficiencies:

- A. Management Review of Upward and Downward Adjustments
- B. Environmental Clean up Costs
- C. Accounts Payable
- D. Financial Systems Security

We consider significant deficiency A above, to be a material weakness.

We noted no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.



The results of our tests of compliance with certain provisions of laws, regulations, and contracts, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

The results of our tests of FFMIA disclosed instances where the FLETC's financial management systems did not substantially comply with the U.S. Government Standard General Ledger at the transaction level, and Federal financial management system requirements. The results of our tests of FFMIA disclosed no instances in which the FLETC's financial management systems did not substantially comply with Federal Accounting Standards.

We also reported a matter being investigated by FLETC that the outcome of which could impact FLETC's compliance with the *Anti-deficiency Act*.

The following sections discuss our opinion on the FLETC's consolidated financial statements; our consideration of the FLETC's internal controls over financial reporting and performance measures; our tests of the FLETC's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

## **OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS**

We have audited the accompanying consolidated balance sheets of the U.S. Department of Homeland Security's (DHS) Federal Law Enforcement Training Center (FLETC) as of September 30, 2007 and 2006, and the related consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year ending September 30, 2007 (hereinafter referred to as "consolidated financial statements"). We were not engaged to audit the accompanying consolidated statements of net cost, and changes in net position, and combined statement of budgetary resources, for the year ended September 30, 2006 (referred to herein as "other fiscal year 2006 financial statements").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Homeland Security Federal Law Enforcement Training Center as of September 30, 2007 and 2006, and its net cost, change in net position, and budgetary resources for the year ending September 30, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 18, in fiscal year 2007, the FLETC changed its method of reporting the reconciliation of budgetary resources to the net cost of operations.

The information in the Management's Discussion and Analysis (MD&A), Strategic Plan and Performance, and Required Supplementary Information (RSI) sections of the FLETC Performance and Accountability Report (PAR) is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it. In addition, certain information presented in the MD&A, and RSI, is based on the other fiscal year 2006 financial statements, on which we have not expressed an opinion.



Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Other Accompanying Information section is presented for purposes of additional analysis and is not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the FLETC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the FLETC's consolidated financial statements that is more than inconsequential will not be prevented or detected by the FLETC's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the FLETC's internal control.

Significant deficiencies in internal control over financial reporting are described in Exhibits I and II. Deficiencies that are considered to be material weaknesses are presented in Exhibit I and significant deficiencies that are not considered to be material weaknesses are presented in Exhibit II.

Exhibit IV presents the status of prior year reportable conditions.

We also noted certain additional matters involving internal control over financial reporting and its operation that we will report to the management of FLETC in a separate letter.

## **INTERNAL CONTROL OVER PERFORMANCE MEASURES**

Our tests of internal control over performance measures, as described in the Responsibilities section of this report, disclosed no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

## **COMPLIANCE AND OTHER MATTERS**

Our tests of compliance with certain provisions of laws, regulations, and contracts, as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no other instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed instances, described in Exhibits I, II and III, where the FLETC's financial management systems did not substantially comply with the U.S. Government Standard General Ledger at the transaction level, and Federal financial management system requirements. The



results of our tests of FFMIA disclosed no instances in which the FLETC's financial management systems did not substantially comply with Federal Accounting Standards.

Other Matters. FLETC management has initiated a review of the classification of certain liabilities recorded in their accounting records that may identify a violation of the Anti-deficiency Act, or other violations of appropriation law, that may have occurred during fiscal year 2007 or during earlier years.

## RESPONSIBILITIES

Management's Responsibilities. The United States Code Title 31 Section 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To assist DRS in meeting these reporting requirements, the FLETC prepares and submits financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing the MD&A (including the performance measures), and Required Supplementary Information;
- Establishing and maintaining effective internal control; and
- Complying with laws, regulations, and contracts applicable to the FLETC, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibilities. Our responsibility is to express an opinion on the consolidated financial statements of the FLETC based on our audits. We conducted our audits 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 OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FLETC's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2007 audit, we considered the FLETC's internal control over financial reporting by obtaining an understanding of the FLETC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the



objectives described in *Government Auditing Standards* and OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the FLETC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the FLETC's internal control over financial reporting.

As required by OMB Bulletin No. 07-04 in our fiscal year 2007 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis and Strategic Plan and Performance sections, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to report deficiencies in the design of internal control over key performance measures in accordance with OMB Bulletin 07-04. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the FLETC's fiscal year 2007 consolidated financial statements are free of material misstatement, we performed tests of the FLETC's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts, applicable to the FLETC. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 07-04 and FFMIA, we are required to report whether the FLETC's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

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The FLETC's response to the findings identified in our audit is presented in Exhibit V. We did not audit the FLETC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the FLETC's management, DHS management, the DHS Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

January 28, 2008



## Independent Auditor's Report

### Exhibit 1 - Material Weaknesses

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#### A. Management Review of Upward and Downward Adjustments

*Background:* Upon receipt of goods or services, FLETC typically receives an invoice from the commercial vendor, or for intragovernmental transactions, the billing agency draws funds from FLETC through the Intra-governmental Payment and Collection System (IPAC). In this process, FLETC may find that funds were obligated on the agreement in excess of the amount invoiced or drawn, or insufficient funds were obligated on the agreement to cover the amount invoiced or drawn. In these instances, FLETC must either increase or decrease the amount of the obligation to agree the amount of the obligation to the amount of the invoice or IPAC payment.

*Condition:* While performing procedures over General Ledger Account Code (GLAC) 4881 Upward Adjustments of Prior-Year Undelivered Orders - Obligations, Unpaid, GLAC 4871 Downward Adjustments of Prior-Year Unpaid Undelivered Orders - Obligations, Recoveries, GLAC 4981 - Upward Adjustments of Prior-Year Delivered Orders - Obligations, Unpaid, and GLAC 4971 - Downward Adjustments of Prior-Year Unpaid Delivered Orders - Obligations, Recoveries, we noted some transactions affecting these accounts that were not valid upward and downward adjustments. Specifically, we noted at least 11 adjustments that aggregated to a material amount that were not valid upward or downward adjustments affecting the budgetary accounts identified above. FLETC subsequently determined that approximately \$2.2 million of the \$2.8 million accrual transactions were invalid adjustments.

In addition, our testwork over journal vouchers as of September 30, 2007 identified that Momentum Financials Desktop is configured to close GLAC 4871 to GLAC 4201 at year-end. According to the U.S. Government Standard General Ledger (USSGL), GLAC 4871 should close to GLAC 4801. As a result, the Finance Division must prepare manual journal vouchers to reclassify amounts from 4871 to sub-account GLAC 487N, as the sub-accounts are configured for proper close-out while 4871 is not configured to close-out correctly at year-end.

We also noted that FLETC's draft Performance and Accountability Report Statement of Budgetary Resources, Line 16.- Recoveries of Prior Year Unpaid Obligations, was not accurately stated and required a material reclassification to properly state the financial statements to reflect the adjustment noted above. The conditions noted above resulted in FLETC recording a correcting upward/downward adjustment totaling more than \$15 million.

*Criteria:* OMB Circular A-123, *Management's Responsibility for Internal Control* states: "Management is responsible for developing and maintaining effective internal control... The importance of internal control is addressed in many statutes and executive documents. The FMFIA establishes overall requirements with regard to internal control. The agency head must establish controls that reasonably ensure that: '(i) obligations and costs are in compliance with applicable law; (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.'"

FFMIA Section 803(a) requires that each Agency implement and maintain a system that complies substantially with Federal financial management system requirements as stipulated by OMB Circular No. A-127.

OMB Circular A-127, *Financial Management Systems*, Section 7.c. states: "Application of the U.S. Government Standard General Ledger at the Transaction Level. Financial events shall be recorded by agencies throughout the financial management system applying the requirements of the U.S. Government Standard General Ledger (SGL) at the transaction level. Application of the SGL at the



## **Independent Auditor's Report**

### **Exhibit I - Material Weaknesses**

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transaction level means that the financial management systems will process transactions following the definitions and defined uses of the general ledger accounts as described in the SOL.

According to JFMIP's *Core Financial System Requirements*, an agency's core financial management system must ensure that an agency does not obligate or disburse funds in excess of those appropriated and/or authorized and specific system edits and user notifications related to funds control must be in place. The *Federal Acquisition Regulation* Section 1.6 addresses the authorities and responsibilities granted contracting officers. Treasury's USSGL guidance specifies the accounting entries related to budgetary transactions.

*Cause/Effect:* FLETC does not have a comprehensive review process in place to detect invalid upward or downward adjustments. In addition, the account mapping logic within Momentum Financials Desktop is not configured to appropriately close GLAC 4871 to GLAG 4801. FLETC's Statement of Budgetary Resources may be materially misstated if amounts are not moved to subsidiary accounts to facilitate the closing process.

*Recommendations:* We recommend that FLETC management:

- Implement policies and procedures to ensure that only valid upward or downward adjustments are recorded in the appropriate budgetary accounts;
- Improve supervisory reviews and monitoring controls over manually recorded adjustments to record upward and downward adjustments to the general ledger. In addition, procedures should be adopted to review the Statement of Budgetary Resources for proper classification and presentation of amounts. These reviews should be documented.
- Take the necessary steps to develop account mapping logic to facilitate the closing of GLAC 4871 to GLAC 4801, which is consistent with the requirements of the USSGL at the transaction level.

## Independent Auditors' Report

### Exhibit 11- Significant Deficiencies

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#### B. Environmental Clean Up Costs

*Background:* To address our audit findings identified during the FY 2006 audit, FLETC developed a corrective action plan (CAP) to perform a complete assessment and recognition of all measurable and probable FLETC environmental cleanup cost liabilities. In 2007, FLETC escalated the recorded liability from the prior year for inflation. FLETC also recognized an environmental liability clean up cost related to lead based paint

*Conditions:* While performing our FY 2007 audit, we noted that FLETC has not fully recognized all measurable and probable clean up cost liabilities, despite the implementation of its CAP. We also noted that:

An inconsistent application of the methodology used to estimate environmental liabilities resulted in a net overstatement of total liabilities; and

Some costs that were capitalized related to asbestos abatement and should have been expensed in the period incurred.

*Criteria:* Statement of Federal Financial Accounting Standards (SFFAS) #5, *Accounting for Liabilities of the Federal Government*, provides the definition and general principle for recognition of liabilities in paragraph 19: "A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events."

In describing SFFAS #5, the Federal Financial Accounting and Auditing Technical Release #2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, states, "liabilities shall be recognized when the following conditions are met:

- A past transaction or event has occurred,
- A future or other sacrifice of resources is probable, and
- The future outflow or sacrifice of resources is measurable."

Statement of Federal Financial Accounting Standards (SFFAS) #6, *Accounting for Property, Plant, and Equipment*, defines clean-up costs in paragraph 85 as: "...the costs of removing, containing, and/or disposing of (1) hazardous waste from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E." Furthermore, paragraph 87, clarifies that "Cleanup may include, but is not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and post closure costs."

Statement of Federal Financial Accounting Standards (SFFAS) #6, *Accounting for Property, Plant, and Equipment*, paragraph 94 onwards related to cleanup costs states the following: Cleanup costs, as defined above, shall be estimated when the associated PP&E is placed in service.

Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-related Cleanup Costs*, states that "Asbestos-related cleanup costs are the costs of removing, containing, and/or disposing of (1) asbestos-containing materials from property, or (2) material and/or property that consists of asbestos-containing material at permanent or temporary closure or shutdown of associated PP&E".

*Cause/Effect:* FLETC has not established clear and effective policies and procedures for identifying, assessing, estimating, and reporting environmental liabilities to the Finance Division. The lack of a process or adherence to a process for managing environmental issues reduces confidence that the environmental liability is complete and accurate. Persons outside of the Finance Division have not

## Independent Auditors' Report

### Exhibit II - Significant Deficiencies

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received specific training to help them understand the policies and the data needed by the Finance Division. This is true not only of estimating expectations and maintaining supporting documentation, but also the process of identifying environmental liabilities through due care. Due care should be evident from policies and procedures as well as the ability to effectively identify environmental liabilities.

Related to the asbestos removal project, FLETC believes that although some of the jobs, such as carpeting and painting are related to maintenance, the abatement of asbestos essentially extended the useful life of the late-1950 dormitory and improved the capacity or quality of life for federal law enforcement students in Charleston.

*Recommendations:* We recommend that FLETC management:

- Continue refining, implementing, and maintaining environmental liability management efforts including the processes, policies, and Standard Operating Procedures (SOPs).
- Improve the system for estimating and reporting environmental liabilities and the reporting of that information to the Finance Division.
- Ensure that all estimates of environmental liabilities are reviewed by Finance Division management to ensure the estimates are reasonable and accompanied by auditable supporting documentation. The supporting documentation should include assumptions made, the elements of the estimate calculation, and support for each element, e.g. specific type of contamination, square footage of the contaminated area or other applicable unit of measurement, the rate or cost per unit to remediate the specific type of contamination, and support for the determination of the rate or cost per unit for remediation.
- Develop standard operating procedures to properly record asbestos abatement related expenses in accordance with the accounting standards until Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-related Cleanup Costs*, is fully implemented at FLETC.

#### C. Accounts Payable

*Background:* During the FY 2006 audit, we identified several liabilities and disbursements subsequent to year end that represented liabilities that should have been accrued at September 30, 2006. Based upon recommendations provided during the prior year audit, FLETC implemented certain procedural changes to their year end accrual policies to improve the process. These procedures have significantly improved the accuracy and completeness of accounts payable and accruals at year end.

*Condition:* FLETC needs to continue to refine its policies and procedures to ensure that it has developed a reasonable estimate of its accounts payable liability in accordance with U.S. generally accepted accounting principles (GAAP). FLETC's process for accruing liabilities at the end of the fiscal year did not capture all the outstanding liabilities that existed at September 30, 2007. Our statistical samples of FLETC's disbursements through November 30, 2007 resulted in 5 of the 49 selections containing unrecorded liabilities totaling \$637,719. In addition, one of the 49 transactions was over accrued by \$237,329. The under accrued differences identified above were extrapolated over the population for a most likely projected error of approximately \$2.2 million.

*Criteria:* Statement of Federal Financial Accounting Standards (SFFAS) Number 1, *Accounting for Selected Assets and Liabilities, Paragraphs 77-79* provides useful information that should be considered when designing policies, procedures and processes employed to estimate accrued liabilities.

## Independent Auditors' Report

### Exhibit 11 - Significant Deficiencies

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*Cause/Effect:* The FLETC has not developed or implemented adequate policies or a process for estimating/accruing Accounts Payable liabilities at fiscal yearend.

*Recommendations:* We recommend that FLETC management continue to refine the process for identifying and estimating liabilities that exist at year end and:

- Perform a final review of the accrual details to ensure the accrual process was properly executed and the accrual is reasonable.
- Provide comprehensive training to every person involved in the accrual process. The training should include a discussion of the objective of the process, what each type of accounts payable requires to be accrued properly, the timing of the procedures to be performed, what form the reported results should take, to whom the results must be reported, and exactly how the information and methods used to obtain the information or estimate are to be documented for later examination by persons internal or external to FLETC.
- Periodically review the reported accrual information provided by personnel both inside and outside the Finance Division. This will require a knowledgeable person going to the location of the individuals generating the accrual information and reviewing the accuracy of the information as well as the documentation as to how the information was obtained or estimated.
- Assign one person in the Finance Division the responsibility for ensuring that each person designated to submit the quarterly accrual information submits the information on time and in the format required. Any late, incomplete, or undocumented submissions should be reported to senior Finance Division management as well as Management of the Division in which the designated individual works.
- Perform a search for unrecorded liabilities at quarter end to determine the effectiveness of FLETC's current accrual methodology.
- Include the timely and accurate submission of the accrual information as a part of each designated individual's performance evaluation.

#### D. Financial Systems Security

*Background:* Controls over the FLETC information technology (IT) and related financial systems are essential elements of financial reporting integrity. Effective general controls in an IT and financial systems environment are typically defined in six key control areas: entity-wide security program planning and management, access control, application software development and change control, system software, segregation of duties, and service continuity. In addition to general controls, financial systems contain application controls which are the structure, policies, and procedures that apply to separate individual application systems, such as accounts payable and payroll.

During FY 2007, we performed audit procedures over the two key FLETC financial systems as well as those systems supporting the general control environment. The overall objective of our IT audit procedures was to evaluate the effectiveness of IT general controls of FLETC's financial processing environment and related IT infrastructure as necessary to support the FY 2007 audit.

The Federal Information System Controls Audit Manual (FISCAM), issued by the Government Accountability Office (GAO), formed the basis of our review and was supplemented by the National Institute of Standards and Technology (NIST) Special Publication 800-53 and applicable DRS and FLETC policies and procedures.

To complement our general IT controls audit, we also performed technical security testing for key network and system devices, as well as testing over key financial application controls. The technical security testing was performed from within FLETC and was focused on test, development,

## **Independent Auditors' Report**

### **Exhibit II - Significant Deficiencies**

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and production devices that directly support FLETC financial processing and key general support systems. The application control testing included assessing the structure, policies, and procedures that apply to separate individual application processes, such as accounts payable and payroll. The application control testing was performed to assess the controls that support the financial system's internal controls over the input, processing, and output of financial data and transactions.

*Conditions:* During FY 2007, we continued to identify IT general control weaknesses at FLETC. The most significant weaknesses related to access controls, application software development, and change controls. However, we have also identified weaknesses in entity-wide security program planning and management, system software and service continuity. We noted that some systems are not configured in the most secure manner, some policies and procedures and corrective actions remain in draft form and have not been implemented, test plan standards and procedures have not been implemented, and some back-up and contingency systems have not been tested. Collectively, the IT control weaknesses limited FLETC's ability to ensure that critical financial and operational data was maintained in such a manner to ensure confidentiality, integrity, and availability.

*Cause/Effect:* Many of the conditions identified in FY 2007 during our IT audit are the result of a lack of finalized and approved IT policies and procedures, as well as a lack of monitoring of the control environment to ensure compliance with DRS, OMB, and NIST policies. Additionally, many of these weaknesses are inherent in FLETC's legacy systems, or system development activities that did not incorporate strong security controls from the outset and will take several years to fully address. Further, the lack of resources and competing responsibilities has prevented FLETC from implementing many of these controls and processes into their environment. Finally, there was no consistent and thorough testing of IT controls by FLETC to identify and mitigate weaknesses. The effect of the identified IT weaknesses has the potential to impact the integrity of the data processing and reporting of FLETC financial and operational data. In addition, these weaknesses negatively impacted the internal controls over FLETC financial reporting and its operations;

*Criteria:* The Federal Information Security Management Act (FISMA) passed as part of the *Electronic Government Act of 2002* mandates that Federal entities maintain IT security programs in accordance with OMB and NIST guidance. OMB Circular A-BO, *Management of Federal Information Resources*, and various NIST guidelines describe specific essential criteria for maintaining effective general IT controls. In addition, OMB Circular A-127 prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems. In addition, we assessed the FLETC financial systems against the DHS's own security policies and procedures, such as the *DHS Sensitive Systems Policy Directive, 4300A, Information Technology Security Program*.

*Recommendations:* We recommend that FLETC management take corrective actions to improve its IT systems security. Corrective actions may include better enforcement of FLETC and DHS policies, full implementation of corrective action plans currently developed, finalize and implement a SDLC methodology for FLETC's main financial system, as well as incorporating security planning throughout the life cycle, and periodically test the two financial systems, and server level and database backups in compliance with DHS Policy Directive 4300A, as well as other recommendations we have provided during our audit.

## Independent Auditor's Report

### Exhibit 111- Compliance with Laws and Regulations

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#### E. Federal Financial Management Improvement Act of 1996 (FFMIA)

*Background/Criteria:* FFMIA requires that an agency's financial management systems substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

*Conditions – U.S. Government Standard General Ledger:* As explained in Exhibit I, FLETC's financial system is not configured to properly record upward and downward adjustments. In addition, the system is not properly configured to close General Ledger Account Code 4871 to General Ledger Account Code 4801.

*Federal financial management system requirements:* As explained in Exhibit II, FLETC has not complied with/performed:

- The information security requirements in accordance with FISMA, and OMB Circular A-BO,
- The documentation requirements for financial management systems and processing instructions in accordance with JFMIP and other applicable requirements,
- The internal control requirements that ensure resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and disclosed in reports,
- The training and user support requirements that should be provided to the users at all levels of the financial systems to enable them to understand, operate, and maintain the systems, and
- The maintenance required to enable the system to continue to operate in an effective and efficient manner.

*Recommendation:* We recommend that FLETC implement the recommendations related to the above conditions as detailed in Exhibits I and II as well as develop a process to ensure FLETC complies with the provisions of FFMIA.

## Independent Auditors' Report

### Exhibit IV - Status of Prior Year Reportable Conditions

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Ref	Condition	Status
A	Financial Reporting	This condition has been reported as a management letter comment in fiscal year 2007.
B	Environmental Cleanup Costs	A portion of this condition has not been corrected and is repeated in fiscal year 2007. See finding B.
C	Capital Leases Liabilities	This condition has been corrected.
D	Valuation of Inventories	This condition has been corrected.
E	Construction in Progress	This condition has been reported as a management letter comment in fiscal year 2007.
F	Accounts Payable	A portion of this condition has not been corrected and is repeated in fiscal year 2007. See finding C.
G	Deferred Revenue	This condition has been reported as a management letter comment in fiscal year 2007.
H	Financial Systems Security	This condition has not been corrected and is repeated in fiscal year 2007. See finding D.
I	Federal Financial Management Improvement Act of 1996 (FFMIA)	A portion of this condition has not been corrected and is repeated in fiscal year 2007. See finding E.
J	Prompt Payment Act (PPA)	This condition has been reported as a management letter comment in fiscal year 2007.





**Homeland  
Security**

February 21, 2008

KPMGLLP  
2001 M Street, NW  
Washington, DC 20036

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the Federal Law Enforcement Training Center's (FLETC) consolidated financial statements as of September 30, 2007, and the related Independent Auditors' Report. In response to the findings, our concurrence or non-concurrence is as follows:

Exhibit I – Material Weaknesses

- A. Management Review of Upward and Downward Adjustments - we concur with the finding.

Exhibit II – Significant Deficiencies

- B. Environmental Clean Up Costs – we concur with the finding.
- C. Accounts Payable - we concur with the finding.
- D. Financial Systems Security – we concur with the finding.

Exhibit III – Compliance with Laws and Regulations

- E. Federal Financial Management Improvement Act of 1996 (FFMIA) – we concur with the finding.

Sincerely,

A handwritten signature in black ink, appearing to read "Julie Martin".

Julie Martin  
Deputy Chief Financial Officer  
Federal Law Enforcement Training Center

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