



# Department of Homeland Security Office of Inspector General

## Management Directorate's Management Letter for FY 2010 DHS Consolidated Financial Statements Audit





Homeland  
Security

MAR -2 2011

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.

This report presents the Management Directorate's Management Letter for FY 2010 DHS Consolidated Financial Statements Audit. It contains an observation related to internal control that was not required to be reported in the *Independent Auditors' Report*, dated November 12, 2010, which was included in the FY 2010 DHS *Annual Financial Report*. The independent public accounting firm KPMG LLP (KPMG) performed the integrated audit of DHS' FY 2010 financial statements and internal control over financial reporting and prepared this management letter. KPMG is responsible for the attached management letter dated February 2, 2011, and the conclusions expressed in it. We do not express opinions on DHS' financial statements or internal control, or provide conclusions on compliance with laws and regulations.

The observation herein has been discussed in draft with those responsible for implementation. We trust 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.

A handwritten signature in cursive script that reads "Anne L. Richards".

Anne L. Richards  
Assistant Inspector General for Audits



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036-3389

February 2, 2011

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

Ladies and Gentlemen:

We were engaged to audit the balance sheet of the U.S. Department of Homeland Security (DHS or Department) as of September 30, 2010 and the related statement of custodial activity for the year then ended (referred to herein as “financial statements”). We were also engaged to examine the Department’s internal control over financial reporting of the balance sheet as of September 30, 2010, and the statement of custodial activity for the year then ended. We were not engaged to audit the accompanying statements of net cost, changes in net position, and budgetary resources for the year ended September 30, 2010 (referred to herein as other fiscal year (FY) 2010 financial statements), or to examine internal control over financial reporting over the other FY 2010 financial statements.

Because of matters discussed in our *Independent Auditors’ Report*, dated November 12, 2010, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the FY 2010 financial statements and we were unable to perform procedures necessary to form an opinion on DHS’ internal control over financial reporting of the balance sheet as of September 30, 2010 and the related statement of custodial activity for the year then ended. The Management Directorate (MGT) is a component of DHS. We noted certain matters involving internal control and other operational matters, related to MGT that are summarized in the Table of Financial Management Comments on the following pages, and presented for your consideration in Section I of 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. These comments are in addition to the significant deficiencies presented in our *Independent Auditors’ Report*, dated November 12, 2010, included in the FY 2010 DHS *Annual Financial Report*. A description of each internal control finding and its disposition as either a significant deficiency or a financial management comment is provided in Appendix A.

As described above, the scope of our work was not sufficient to express an opinion on the balance sheet as of September 30, 2010 or the statement of custodial activity of DHS for the year then ended, and we were not engaged to audit the statements of net cost, changes in net position, and budgetary resources for the year ended September 30, 2010. Accordingly, other internal control matters may have been identified and reported had we been able to perform all procedures necessary to express an opinion on the FY 2010 financial statements and had we been engaged to audit the other FY 2010 financial statements. We aim, however, to use our knowledge of DHS’ 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. This report is intended for the information and use of DHS' and MGT's management, the DHS Office of Inspector General, the U.S. Office of Management and Budget, 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

Management Directorate  
*Table of Financial Management Comments*  
September 30, 2010

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

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**APPENDIX**

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Management Directorate  
*Financial Management Comments*  
September 30, 2010

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**FMC 10-01 – Inadequate Internal Controls over Property, Plant & Equipment (PP&E) (NFR No. MGT 10-01)**

The Management Directorate (MGT) did not have adequate processes and internal controls in place to report construction in progress, leasehold improvements, and internal-use software in a timely manner.

*Recommendations:*

We recommend that MGT:

- Design, implement and document additional policies, procedures, and internal controls to ensure PP&E recorded in the sub-ledgers exists and is complete, accurate, and properly valued.
- Provide cross-training to the property management program and accounting personnel, including Sunflower Asset Management System, the Federal Financial Management System, and PRISM training.

Management Directorate  
 Crosswalk - Financial Management Comments to NFRs  
 September 30, 2010

NFR No.	Description	Disposition <sup>1</sup>			
		IAR			FMC
		MW	SD	NC	No.
10-01	Inadequate Internal Controls over Property, Plant and Equipment (PP&E)				10-01

<sup>1</sup>Disposition Legend:

IAR	Independent Auditors' Report dated November 12, 2010
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 Noncompliance 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 Management and Reporting
B	Information Technology Controls and System Functionality
C	Fund Balance with Treasury
D	Property, Plant, and Equipment
E	Actuarial and Other Liabilities
F	Budgetary Accounting
G	Other Entity-Level Controls
H	Custodial Revenue and Drawback
I	<i>Federal Managers' Financial Integrity Act of 1982 (FMFIA)</i> , and Laws and Regulations Supporting OMB Circular No. A-50, <i>Audit Followup</i> , as revised
J	<i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i>
K	<i>Single Audit Act Amendments of 1996</i>
L	<i>Chief Financial Officers Act of 1990 (CFO Act)</i>
M	<i>Antideficiency Act</i> , as amended (ADA)
N	<i>Government Performance and Results Act of 1993 (GPRA)</i>

Management Directorate  
*Status of Prior Year NFRs*  
 September 30, 2010

NFR No.	Description	Disposition <sup>1</sup>	
		Closed <sup>2</sup>	Repeat (2010 NFR No.)
09-01	Obligations are not Being Keyed into FFMS in a Timely Manner	X	
09-02	Inadequate Internal Controls over PP&E		MGT 10-01
09-03	<i>Number not used</i>		Not applicable
09-04	Items in the Suspense Account are Not Being Researched and Resolved in a Timely Manner as Defined by Treasury	X	
09-05	Aged Obligations are Not Timely Reviewed to Ensure the Validity and Accuracy of the UDO Balance	X	
09-06	Disbursements are Being Charged to an Improper Sub-Object Class (SOC)	X	
09-07	Accounts Payable Transactions are Not Being Recorded in FFMS Timely	X	

<sup>1</sup> KPMG was engaged to perform an audit over the DHS balance sheet and statement of custodial activity as of and for the year ended September 30, 2010, and was not engaged to perform an audit over the statement of net cost, statement of changes in net position, and statement of budgetary resources for the year ended September 30, 2010. In addition, we were engaged to follow up on the status of all active NFRs that supported significant deficiencies reported in KPMG's *Independent Auditors' Report* dated November 13, 2009.

<sup>2</sup> NFRs were closed either through remediation of the findings or we were not engaged to follow up on active NFRs that did not support significant deficiencies reported in KPMG's *Independent Auditors' Report* dated November 13, 2009.



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