



Department of Homeland Security Office of Inspector General

Independent Auditors' Report on the Federal Law Enforcement Training Center's FY 2009 Consolidated Financial Statements





Homeland
Security

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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 the Federal Law Enforcement Training Center's financial statement audits for fiscal years (FY) 2009 and 2008. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audits. 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 concluded that FLETC's consolidated financial statements as of and for the years ended September 30, 2009 and 2008, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. The FY 2009 auditors' report discusses two material weaknesses, and two significant deficiencies in internal control. KPMG is responsible for the attached auditors' report, and the conclusions expressed in the report. We do not express opinions on FLETC's financial statements or provide conclusions on compliance with laws and regulations.

The recommendations herein have 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.

Richard L. Skinner

Richard L. Skinner
Inspector General



KPMG LLP
2001 M Street, NW
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Independent Auditors' Report

Inspector General
U.S. Department of Homeland Security:

Director
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, 2009 and 2008, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. 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 2009 audit, we also considered FLETC's internal control over financial reporting and tested 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.

Summary

As stated in our opinion on the consolidated financial statements, we concluded that FLETC's consolidated financial statements as of and for the years ended September 30, 2009 and 2008, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

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

- A. Financial Reporting
- B. Information Technology General and Security Controls
- C. Controls over the Revenue Process
- D. Controls over the Accounts Payable Estimation Methodology

We consider significant deficiencies A and B, above, to be material weaknesses.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.



The following sections discuss our opinion on FLETC's consolidated financial statements; our consideration of FLETC's internal control over financial reporting; our tests of 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 Federal Law Enforcement Training Center (FLETC) as of September 30, 2009 and 2008, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FLETC as of September 30, 2009 and 2008, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

The information in the Management's Discussion and Analysis and Required Supplementary Information is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. 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.

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 was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of FLETC's consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

In our fiscal year 2009 audit, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, described in Exhibit I, and other deficiencies that we consider to be significant deficiencies, described in Exhibit II. Exhibit III presents the status of prior year material weaknesses and significant deficiencies.



Compliance and Other Matters

The results of our tests of compliance described in the Responsibilities section of this report 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.

We noted certain additional matters that we have reported to management of FLETC in a separate letter dated December 31, 2009.

* * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to FLETC.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2009 and 2008 consolidated financial statements of 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 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 2009 audit, we considered FLETC's internal control over financial reporting by obtaining an understanding of 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 did not test all 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 FLETC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of FLETC's internal control over financial reporting.

As part of obtaining reasonable assurance about whether FLETC's fiscal year 2009 consolidated financial statements are free of material misstatement, we performed tests of FLETC's compliance with certain provisions of applicable 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. 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 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.

FLETC's responses to the findings identified in our audit are attached to this report. We did not audit FLETC's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of 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

December 31, 2009

Independent Auditors' Report

Exhibit I – Material Weaknesses

I-A Financial Reporting

Background: The U.S. Department of Homeland Security's (DHS) Federal Law Enforcement Training Center's (FLETC) primary line of business is to provide law enforcement training at its four US facilities for DHS components and over 80 Federal, state and local agencies. Annual appropriations are used to pay for certain types of training, while the cost of other, typically advanced and specialized, training is reimbursed by the other agencies. Generally, FLETC enters into annual reimbursable agreements with their customers, and bills applicable training charges on a monthly basis.

In addition, to ensure that its facilities and training programs are state-of-the-art and able to meet the changing needs of its customers, FLETC is continuously maintaining, modifying, and constructing new property, plant and equipment. FLETC also provides construction contract management services for certain DHS components and other Federal agencies to facilitate the building of specialized training facilities. FLETC pays for the cost of construction with both its own appropriations and other Federal agency dedicated appropriations.

Conditions: We identified the following control deficiencies which in combination are considered a material weakness in internal controls over financial reporting:

Environmental Liabilities

In performing test work procedures over environmental disposal liabilities, we noted that FLETC does not have adequate policies and procedures in place whereby Environmental and Safety Division (EVS) identifies, assesses, estimates, and reports environmental liabilities to the Finance Division throughout the year.

Within the Finance Division, FLETC does not have adequate supervisory and monitoring controls in place to effectively manage (through policies and procedures) the annual process of estimating the environmental liability (in coordination with EVS), and performing the appropriate level of review of EVS' work.

We identified mathematical errors in the environmental disposal liability (EDL) report provided by EVS as well as calculation errors on several buildings on the Charleston campus with lead based paint which were either not included in the EVS report and/or had the incorrect square footage used to estimate the environmental liability related to lead based paint. As a result, FLETC subsequently increased their September 30, 2009 environmental liability estimate from \$20.7 million to \$22.4 million.

Imputed Costs and Financial Reporting Process

In performing test work over the reasonableness of imputed costs, we noted the following:

- When calculating inter-entity imputed costs related to instructors, FLETC used the incorrect number of instructors for one entity, overstating the number of instructors by 12.
- When calculating imputed costs related to the Office of Personnel Management, FLETC used the incorrect payroll expense amounts, overstating payroll expenses by approximately \$38 million.

Additionally, in performing test work procedures over net position, we identified a \$5.6 million difference between unexpended appropriations and cumulative results of operations (CRO). We noted that FLETC erroneously posted transactions related to reimbursable funds to Standard General Ledger (SGL) account 3100, *Unexpended Appropriations*, rather than SGL 6100, *Operating Expenses*, which closes to CRO.

Independent Auditors' Report

Exhibit I – Material Weaknesses

In addition, during the preparation of the Annual Financial Report (AFR), several errors were noted including the following:

- The Statement of Budgetary Resources (SBR) to President's Budget footnote was not properly prepared as the note did not agree to the FY 2008 SBR.
- The Summary of Significant Accounting Policies footnote had not been updated to reflect current year accounting policies, including the implementation of Statement of Federal Financial Accounting Standards (SFFAS) No. 30, *Inter-Entity Cost Implementation*.
- Beginning balance adjustments within the SBR were not reflected in the updated AFR.
- Footnotes were not updated to reflect all top side entries.
- Footnotes did not agree to the consolidated financial statements.
- FY 2008 consolidated financial statement amounts were incorrectly changed from the amounts reflected in the issued FY 2008 financial statements.

Allowance for Doubtful Accounts

In performing test work procedures over the allowance for doubtful accounts, we noted that the allowance was erroneously applied to the receivable balance with the public and not to other federal entities. This resulted in a negative public receivable balance.

Property, Plant, and Equipment (PP&E)

KPMG selected a judgmental sample of 20 PP&E additions during the 9 months ended June 30, 2009, totaling \$17.8 million or approximately 85% of the total PP&E additions of \$21.1 million, and noted that FLETC had not timely accounted for asset acquisitions or transferred completed assets from construction-in-progress (CIP) to in-use assets in its general ledger. Eleven sample items, or 55%, were not timely recorded in the Momentum (also referred to as the Financial Accounting and Budgeting System ("FABS")) fixed asset module (transactions were recorded 30 days or more after the asset acquisition or in-service date). Of the 11 untimely additions, 10 items were completed CIP projects that were transferred to real property and 1 item was equipment.

FLETC did not always enter correct asset data in the Momentum fixed asset module as follows:

- For one sample item, the Momentum fixed asset module did not contain the in-service date.
- For two sample items, the Momentum fixed asset module contained an incorrect catalog code which resulted in Momentum computing an incorrect useful life.

While performing substantive audit procedures over additions to CIP for the nine months ended June 30, 2009, 2 of the 14 CIP additions tested, relating to one construction project, were not properly capitalized as CIP in the general ledger as follows:

- FLETC incorrectly capitalized \$59 thousand of furniture as construction-in-progress rather than capitalizing the items as a bulk purchase in SGL 1750, *Equipment*.
- FLETC incorrectly expensed approximately \$616 thousand of furniture that should have been capitalized as part of the bulk purchase mentioned above and expensed approximately \$53 thousand of Information Technology (IT) wiring that should have been capitalized as part of the construction project in SGL 1720, *Construction-in-Progress*.

Independent Auditors' Report

Exhibit I – Material Weaknesses

During a site-visit to the Charleston, SC facility, it was identified that adequate processes to account for leasehold improvements did not exist. KPMG notes that the Finance Division was unaware of the existence of several lease agreements.

In addition, FLETC's review conducted to assist DHS with its compliance with the *Federal Manager Financial Integrity Act* of 1982 (FMFIA) and Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, did not identify all the material weaknesses that we identified during our audit as described above and in Comment I-B *Information Technology General and Security Controls*. Generally, management's review, for purposes of reporting under FMFIA and OMB Circular A-123, should result in identification of similar, if not the same, control deficiencies over financial reporting, as identified by the external financial statement auditors.

Cause/Effect:

Environmental Liabilities

The EVS does not have adequate policies or procedures in place surrounding the preparation of a detailed analysis supporting the environmental liabilities estimate. In addition, the Finance Division has not fully assumed responsibility for the accuracy of environmental liabilities presented in the consolidated financial statements, and did not conduct a detailed review of EVS' work. In FY 2009, FLETC posted adjustments to increase the environmental liability balance by approximately \$1.8 million as a result of errors noted during the audit.

Imputed Costs & Financial Reporting Process

FLETC does not have adequate policies and procedures in place requiring the performance of a thorough review of financial reporting information resulting in the following:

- An adjustment to reduce imputed costs by approximately \$6.4 million.
- An adjustment to reclassify approximately \$5.6 million between unexpended appropriations and expenses (i.e. CRO).
- Corrections to the AFR totaling over \$30 million.

Allowance for Doubtful Accounts

FLETC did not properly review the year-end analysis of the allowance for doubtful accounts prior to approving the journal entry resulting in the full reserve being applied to the non-federal receivable. As a result of the error in classifying the allowance from non-federal to federal, FLETC posted an adjustment for approximately \$744 thousand.

Property, Plant, and Equipment

The FLETC Property Management Division and Project Site Managers are not effectively coordinating with the Finance Division to actively monitor the CIP accounts and other acquisitions to ensure completed projects and other acquisitions are reclassified to the appropriate general property, plant, and equipment account to ensure that depreciation commences in a timely manner.

Financial Reporting Branch (FRB) review of data entered into the Momentum fixed asset module was not effective in the identification and correction of input errors.

FLETC's budgetary controls over the monitoring of Purchase Requisition accounting lines (used by Momentum to post expenditures to the SGL) are not effective. In addition, FLETC does not have adequate policies and procedures over bulk purchases. FLETC does not perform a review of

Independent Auditors' Report
Exhibit I – Material Weaknesses

capitalizable (equipment) budget object classes (BOC) that were recorded as expenses to identify potentially capitalizable transactions.

The known errors, related to the untimely capitalization of assets, resulted in depreciation expense and accumulated depreciation being overstated by a total of approximately \$15 thousand.

As a result of the exceptions noted related to the improper expensing and capitalization of PP&E, FLETC performed an analysis of expense transactions with budget object class 31XX to identify similar transactions. As a result of the analysis, FLETC identified approximately \$2.9 million of assets which had been improperly expensed, one of which was a bulk purchase of computers. In addition, we noted an exception in our expense test work for an item, \$620 thousand, which was improperly expensed and noted that these assets were properly identified in FLETC's analysis.

Internal controls designed to ensure the completeness and accuracy of leasehold improvements at all facilities were not operating effectively during FY 2009. Prior to an adjustment posted by FLETC, the FY 2009 ending balances of Leasehold Improvements and Accumulated Depreciation - Leasehold Improvements were understated by approximately \$3.0 million and \$400 thousand, respectively; and the amounts reported for Buildings and Accumulated Depreciation - Buildings were overstated by approximately \$3.0 million and \$400 thousand, respectively.

Criteria:

Environmental Liabilities

SFFAS No. 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." Technical Release No. 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 outflow or other sacrifice of resources is probable, and
- the future outflow or sacrifice of resources is measurable."

Technical Release No. 2 also states the following regarding due care: "Due care refers to a reasonable effort to identify the presence or likely presence of contamination. Due care is considered to be exercised if an agency has effective policies and procedures in place to routinely attempt to identify contamination and forward that information to the responsible agency official." Procedures that are evidence of the exercise of due care are further described in Technical Release No. 2.

SFFAS No. 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 "[c]leanup may include, but is not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and postclosure costs."

Independent Auditors' Report

Exhibit I – Material Weaknesses

Imputed Costs, Financial Reporting & Allowance for Doubtful Accounts

OMB Circular A-123, defines management's responsibility for internal control and provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control. Under OMB Circular A-123, "[w]ithin the organizational structure, management must clearly: define areas of authority and responsibility; appropriately delegate the authority and responsibility throughout the agency; establish a suitable hierarchy for reporting; support appropriate human capital policies for hiring, training, evaluating, counseling, advancing, compensating, and disciplining personnel; and uphold the need for personnel to possess and maintain the proper knowledge and skills to perform their assigned duties as well as understand the importance of maintaining effective internal control within the organization."

Property, Plant, and Equipment

OMB Circular A-123, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely and reliable financial and other reports. Documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

Per FLETC Finance (FIN) Standard Operating Procedures (SOP) No. 5, *Capitalization of Assets*, "The Property Accountant forwards the JV [journal voucher] with substantiating documents to the supervisor, who approves the JV in Momentum. Prior to approving the JV, the supervisor queries the asset record FA [fixed asset document type] entered by Property Management Division (PMD) and verify that all data fields, especially, in-service date, useful life, depreciation method, capitalization, and acquisition cost, are accurately entered. The supervisor will contact PMD for any missing, incomplete or erroneous data for correction. When verified as complete, the supervisor screen prints the asset FA or FC [fixed asset change document type] record transaction and includes it in the JV supporting documents."

Per FLETC Property Management Division SOP No. 9, *Real Property Standard Operating Procedures*, Section VI, "Property Management Division (PMD) is responsible for:

- a. Acting as the repository for real property files, excluding full size prints and plans. These files shall include, but are not limited to the following: maps, legal descriptions of the properties, copies of the title, metes and bounds surveys, historic significance, Americans with Disabilities (ADA) surveys, capitalization reports, copies of MOUs, MOAs, and license or lease agreements, copies of contracts and copies of invoices/bills, transfer-in documents, space utilization data, annual consolidated utilities and communications reports, annual operations and maintenance cost, deferred maintenance cost, annual security cost, documented environmental liabilities and management, documented fire, life safety and security issues and programs, a copy of the facility allocation listing maintained by the Strategic & Planning Analysis Division (SPA), and real property disposal records.
- b. Maintaining and updating official real property records. The PMD Inventory Management Specialist shall input all capitalized real property acquisitions into the Asset Management System within five working days of receipt of the final copy of the Capitalization Report from FIN. The final Capitalization Report is accompanied by copies of paid invoices and contracts from FIN.

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Exhibit I – Material Weaknesses

Facilities Management Division (FMD) is responsible for:

- a. Submitting copies of all Capitalization Reports to FIN within 10 calendar days of any of the following:
 - beneficial occupancy of any building,
 - completion of any facility or structure, or
 - final decision of additional cost resulting from litigation.

9. Finance Division (FIN) is responsible for:

- a. Submitting approved Capitalization Reports to PMD with validated construction/renovation/project costs and copies of paid invoices (less in-house labor costs) and contracts within two (2) work days after receipt of Capitalization Report from FMD.”

SFFAS No. 6: *Accounting for Property, Plant & Equipment*, states that the operating performance objective of SFFAS No. 6 seeks to ensure that federal agencies report,

“...relevant and reliable cost information for decision-making by internal users (e.g., program managers, budget examiners and officials); comprehensive, comparable cost information for decision-making and program evaluation by Congress and the public; and information to help assess the efficiency and effectiveness of asset management (e.g., condition of assets including deferred maintenance).”

(h) General PP&E shall be reported in the basic financial statements: the balance sheet, and the statement of net cost. The acquisition cost of general PP&E shall be recognized as an asset. Subsequently, except for land which is a non-depreciable asset, that acquisition cost shall be charged to expense through depreciation. The depreciation expense shall be accumulated in a contra asset account—accumulated depreciation.

Capitalization Threshold

(148) The Federal Accounting Standards Advisory Board (the Board) believes that Federal entities are sufficiently diverse that one threshold would not be suitable for all entities.

(149) Instead of setting a specific threshold, the Board has adopted a materiality approach—just as is done in private sector accounting. Each entity would establish its own threshold as well as guidance on applying the threshold to bulk purchases. The Board believes that permitting management discretion in establishing capitalization policies will lead to a more cost-effective application of the accounting standards.

Per *FLETC Property Management Function Process Documentation (8/18/2008)*

Capitalized: The Capitalized field is automatically set to ‘Yes’ for items over the \$50,000.

-All equipment with a unit cost of over \$50,000 and estimated useful life of 2 years or more is capitalized. FLETC does not use the “original complement” concept, wherein original shipments of multiple small assets may be capitalized if their total value exceeds the capitalization threshold.

Per *DHS FMP019: Capitalization and Depreciation of Personal Property*

Bulk Purchases. The single purchase of like items in a lot, with the cost of each individual item being below the established capitalization threshold.

Independent Auditors' Report
Exhibit I – Material Weaknesses

(2) Capitalization

- (A) Bulk purchases will be subject to a capitalization threshold of \$1,000,000.
- (D) The threshold(s) listed above are not applicable for instances in which adopting it would cause a material misstatement of the financial statements of the entity when taken on a stand alone basis, or when the adoption of this policy would cause the entity to not be in compliance with Generally Accepted Accounting Principles. Should such an instance occur, the entity will consult with OFM for assistance in determining the correct capitalization threshold.

Recommendations:

Environmental Liabilities

We recommend that FLETC develop and implement policies and procedures to ensure that EVS reviews the environmental disposal liability detail on a routine basis, at least quarterly. We also recommend that FLETC Finance Division implement the necessary supervisory and monitoring controls to effectively manage (through policies and procedures) the annual process of estimating the liability (in coordination with EVS) and perform the appropriate level of review of EVS's work.

Imputed Costs, Financial Reporting Process & Allowance for Doubtful Accounts

We recommend that FLETC implement policies and procedures to ensure that a timely and thorough review of all financial reporting documentation, including journal entries and preparation of the AFR, is performed prior to completion.

Property, Plant, and Equipment

We recommend that FLETC:

1. Adhere to FIN SOP-5 and Property SOP 9 and any other appropriate policies and procedures to ensure that data, including asset in-service dates, are accurately and timely entered in the Momentum fixed asset module.
2. Establish processes to improve communication between the Finance Division, Property Management Division, and Project Site Managers to ensure that assets are appropriately classified and consistently accounted for.
3. Follow the newly implemented bulk purchase capitalization threshold of \$250 thousand.
4. Perform a more detailed review of CIP related invoices to verify that the appropriate amounts are capitalized or expensed.
5. Implement a more detailed review of the accounting data before contracts are approved and entered into Momentum to ensure that purchases are coded to the correct BOC and therefore properly capitalized or expensed.
6. Implement a periodic review of expense transactions with BOC 31XX to identify any assets which were improperly expensed.

I-B Information Technology General and Security Controls

Background: During FY 2009, FLETC took corrective action to address many of its prior year IT control weaknesses. The upgrade of the Financial Accounting and Budgeting System (FABS) [also called Momentum] and the installation of new hardware near the end of FY 2008 improved the overall security structure at FLETC. However, during FY 2009, we continued to identify IT general control weaknesses that impact FLETC's financial data.

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Exhibit I – Material Weaknesses

In addition, system access is a critical control element for FLETC, both from a financial processing perspective and an operational perspective. The Government Accountability Office (GAO) defines access controls as controls that should limit or detect access to computer resources (data, program, equipment, and facilities), thereby protecting those resources against unauthorized modification, loss, and disclosure. Such controls include classifying resources by criticality and sensitivity, identifying authorized users and access authorized, establishing physical and logical controls and monitoring access, investigating violations, and taking actions.

Conditions:

Access Controls and Configuration Management:

- Access and configuration management weaknesses on the Glynco Administrative Network (GAN) and the servers that support Momentum and Student Information System (SIS). These weaknesses included default configuration settings, role and group policies, and weak password management.
- System Engineering Life Cycle (SELC) for Momentum is not finalized.
- Momentum system software event audit logs are not being captured and reviewed.
- Password configuration settings for Linux, which support Momentum system software, allow 6 failed logon attempts before the account is locked.
- Momentum and the GAN security violation audit logs lack management review and signoff.
- Momentum user profile creation or modification is not logged or tracked.
- Weak logical access controls over the GAN and SIS were noted.

Security Management:

- Physical security weaknesses which identified improper protection of system user names and passwords, unsecured information security hardware, documentation containing Personally Identifiable Information (PII) or marked “For Official Use Only”, (FOUO) and unlocked network sessions.

Cause/Effect: FLETC has been relying on the full implementation of the Security Information Management (SIM) system, which will monitor Momentum system software and the GAN audit logs. However, this has not occurred to date due to unavailable staffing. In addition, due to the lack of management oversight, the Momentum approval and security logs review procedures are not being adhered to. The lack of audit logs may cause security related incidents to go unnoticed and uninvestigated, thus allowing potential unauthorized system software changes to deploy into the production environment.

FLETC management has not enabled the Momentum audit logging system setting, which would capture user profile creation and modification. Without logging of new users and profile changes, FLETC would be unaware of any unauthorized additions or changes to profiles within Momentum. This could also lead to a violation of both separation of duties and least privilege principles.

Due to lack of management oversight, GAN logical access controls and Momentum system software access controls have not been strengthened to meet DHS compliance. In addition, FLETC management considers the SIS to have a low impact on operations; therefore, sufficient controls have not been implemented. Yet, having weak system access controls increase the risk of unauthorized individuals gaining access to and improperly modifying or destroying data. Also, having generic/shared user accounts on a production system reduces the audit and accountability of users within the system. Without documenting and approving access forms to applications,

Independent Auditors' Report

Exhibit I – Material Weaknesses

management is unaware of the system access an individual may possess. This could lead to a violation of both separation of duties and least privilege principles. Additionally, unauthorized users may obtain access to the systems. Without access review and recertification procedures being formally documented, reviewers do not have a standard for effectively conducting the recertification of GAN accounts. This could lead to the risk of potentially allowing users to have account privileges that are no longer needed, or should not have been initially granted.

FLETC is not continuously monitoring their vulnerability assessment scans for configuration management vulnerabilities. As a result, default system and application configuration installations on the FLETC's Glyngo Administrative Network (GAN), FABS, and Student Information System (SIS) increases the ability to compromise the availability, integrity, and confidentiality of financial data on the network. This can expose the information system control environment to security breaches, unauthorized access, service interruptions, and denial of service attacks.

FLETC management has not ensured that personnel are adequately trained and aware of the basic IT security policies described by DHS and FLETC to protect their login credentials, lock network sessions to DHS systems, secure information system hardware, and securely store/limit access to FOUO and PII. The failure to control access to sensitive IT resources and FLETC documentation could potentially result in the theft or destruction of FLETC assets, unauthorized access to sensitive information, and disruptions in processing of FLETC financial systems. Additionally, FLETC personnel who are not adequately trained to protect their login credentials present an increased risk of unauthorized access to sensitive information from external and internal threats.

Criteria: The *Federal Information Security Management Act (FISMA)* passed as part of the *E-Government Act of 2002*, mandates, among other things, that Federal entities maintain IT security programs in accordance with National Institute of Standards and Technology (NIST) guidance, and other applicable guidance.

OMB Circular No. A-130, *Management of Federal Information Resources*, describes specific essential criteria for maintaining effective general IT controls.

DHS' *Sensitive Systems Policy, 4300A*, documents policies and procedures adopted by DHS intended to improve the security and operation of all DHS IT systems.

Recommendations: We recommend that the FLETC Chief Information Officer (CIO) and Chief Financial Officer (CFO), in coordination with the DHS Office of Chief Financial Officer and the DHS Office of the Chief Information Officer, make the following improvements to FLETC's financial management systems and associated information technology security program:

Access Controls and Configuration Management:

1. Redistribute procedures and train employees on continuously monitoring and mitigating vulnerabilities. In addition, we recommend that FLETC periodically monitor the existence of unnecessary services and protocols running on their servers and network devices, in addition to deploying patches.
2. Continue to perform vulnerability assessments and penetration tests on all offices within FLETC, from a centrally managed location with a standardized reporting mechanism that allows for trending, on a regularly scheduled basis in accordance with NIST guidance.
3. Develop a more thorough approach to track and mitigate configuration management vulnerabilities identified during monthly scans. FLETC should monitor the vulnerability reports for necessary or required configuration changes to their environment.
4. Develop a process to verify that systems identified with "HIGH/MEDIUM Risk" configuration vulnerabilities do not appear on subsequent monthly vulnerability scan

Independent Auditors' Report

Exhibit I – Material Weaknesses

- reports, unless they are verified and documented as a false-positive. All risks identified during the monthly scans should be mitigated immediately, and not be allowed to remain dormant.
5. Enable audit logging over all Momentum system software and ensure that logs are maintained and proactively reviewed by management.
 6. Enforce existing FLETC policy and procedures over maintenance and review of Momentum security violation logs.
 7. Establish and implement procedures to document and review logs of auditable events on the GAN.
 8. Activate logs for monitoring Momentum user profile creation and modifications.
 9. Implement the corrective actions identified during the audit vulnerability assessment as identified in the issued NFR.
 10. Perform periodic scans of the FLETC network environment, including the financial processing environment, for the identification of vulnerabilities, in accordance with National Institute of Standards and Technology (NIST) SP 800-42, and implement corrective actions to mitigate the risks associated with any vulnerabilities identified during periodic scans.
 11. Establish a process to ensure the GAN and Linux (Momentum system software) is configured to meet minimum DHS password configuration requirements.
 12. Remove all GAN and SIS generic/shared accounts and conduct periodic reviews of the user access lists to ensure compliance.
 13. Establish and enforce procedures for the completion and maintenance of user access forms for the GAN and SIS.
 14. Enforce procedures for the removal of transferred/terminated users within the GAN upon their separation from FLETC.
 15. Establish and implement policies and procedures for recertification of GAN user privileges. This process should include a method to document user recertification and a process to maintain evidence of the reviews.
 16. Establish a process to ensure the SIS is configured to meet minimum DHS password and system configuration requirements.
 17. Retain audit trail records in accordance with DHS policies in order to support potential incidents within the system, and for review of user privileges.

Security Management:

1. Ensure that users are trained and aware of safeguarding login credentials, locking network sessions to DHS systems, and locking any sensitive information, media containing sensitive information, or data not suitable for public dissemination in secure locations when not in use.
2. Effectively limit access to DHS buildings, rooms, work areas, spaces, and structures housing IT systems, equipment, and data to authorized personnel.

Because of the sensitivity of the information, we issued a separate limited distribution report to the Chief Information Officer and Chief Financial Officer of FLETC detailing the conditions identified and our recommendations for corrective action.

Independent Auditors' Report
Exhibit II – Significant Deficiencies

(See Exhibit I for Comments A and B)

II-C Controls over the Revenue Process

Background: FLETC bills an agency/customer for a training course upon completion. The billing information is sent electronically to the Finance Division from the Budget Division in the form of monthly Training Charges (TC) documents obtained from the Student Information System (SIS). The TC document lists all training costs allocated to the agency/customer by budget object class. A Finance Division accountant obtains the TC documents and processes them in Momentum, which reclassifies the expenditures from FLETC to the appropriate reimbursable agreement.

In addition to the electronic TCs, the Budget Division provides the Finance Division with the monthly 'Agency Reimbursable Report' and 'Agency Reimbursable Report by Student', which lists the agencies'/customers' monthly charges by budget object class code and by individual student, respectively. The Finance Division accountant separates the Agency Reimbursable Reports by agency/customer and uses it to create the bills and billing documents in Momentum.

Conditions: We selected a statistical sample of 21 training revenue transactions and an additional judgmental sample of 12 revenue transactions from standard general ledger account (SGL) 5200, *Revenue from Services Provided*, for the nine months ended June 30, 2009. During our test work procedures, we noted the following:

- 1 instance where FLETC underbilled the customer.
- 2 instances where FLETC overbilled the customer.

Due to the errors identified in the initial interim training revenue sample, described above, we selected an additional statistical sample of 13 training revenue transactions samples from SGL 5200 for the same period. During our test work procedures, we noted the following:

- 3 instances where FLETC overbilled the customer.

We selected a statistical sample of 22 training revenue transaction samples from SGL 5200 for the period July 1, 2009 through September 30, 2009. During our test work procedures, we noted the following:

- 2 instances where FLETC underbilled the customer.
- 2 instances where FLETC overbilled the customer.

Cause/Effect: Controls over the billing process are not designed properly to prevent an error in the completeness or accuracy of billing documents since there are no policies or procedures for Finance Division management to perform a detailed review against supporting documentation of the billing documents prior to issuance.

Due to the errors identified above, FLETC underbilled the customer in 3 instances, resulting in a known understatement of revenue of \$5,038, which resulted in a projected error of \$1,736, for a total most likely understatement of \$6,774. FLETC also overbilled customers in 7 instances, resulting in a known overstatement of revenue of \$45,910, which resulted in a projected error of \$11,756, for a total most like overstatement of \$57,666.

Independent Auditors' Report

Exhibit II – Significant Deficiencies

Criteria: OMB Circular A-123, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely and reliable financial and other reports. Documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

OMB Circular A-123 also states, “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.”

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, paragraph 34 states, “Revenue from exchange transactions should be recognized when goods or services are provided to the public or another Government entity at a price.”

SFFAS No. 7, paragraph 36 states, “When services are provided to the public or another Government entity (except for specific services produced to order under a contract), revenue should be recognized when the services are performed.”

SFFAS No. 7, paragraph 38 states, “The measurement basis for revenue from exchange transactions should be the actual price that is received or receivable under the established pricing arrangements.”

Recommendations: We recommend that FLETC:

1. Implement a review process prior to the Budget Division submitting information to the Finance Division to ensure the billing information is complete and accurate.
2. Finance Division implement a review process prior to the release of customer billing documents to ensure bills were properly generated.

II-D Controls over the Accounts Payable Estimation Methodology

Background: In order to calculate the year-end accounts payable accrual, the FLETC Finance Division (Finance) requested that all responsible individuals (contracting officers/program managers) provide an estimated amount for all goods/services that had been/will be provided but not yet billed to FLETC by year-end. As the amounts are based on the information available as of year-end, the accrued amounts may not be exactly the same amount that is ultimately paid by FLETC subsequent to year-end.

Conditions: KPMG selected a statistical sample of 80 accrual estimates as of September 30, 2009 and examined the appropriateness of the accrual based on either subsequent payments and/or the estimation methodology. The results of testing are as follows:

- 7 instances where the amount was over accrued by \$50,000 or more.
- 4 instances where the amount was under accrued by \$50,000 or more.

Independent Auditors' Report
Exhibit II – Significant Deficiencies

KPMG selected a statistical sample of 69 subsequent disbursements for the period October 1, 2009 through November 17, 2009 and noted the following:

- 2 instances where FLETC under accrued in the total amount of \$302 thousand.
- FLETC erroneously included travel related disbursements for the period October 1, 2008 through October 20, 2008 rather than October 1, 2009 through October 20, 2009 in the population, resulting in approximately \$146 thousand of FY 2008 transactions being inappropriately included in the initial subsequent disbursements sample.

Cause/Effect: There is a lack of communication between the contracting officers/program managers and Finance. When estimating the year-end accrual, the contracting officers/program managers and Finance should work together to ensure the estimate is accurate and reasonable based on available supporting documentation (i.e. invoices, past payment history, etc.)

The differences identified during test work over accounts payable accrual resulted in a net overstatement of accounts payable of approximately \$1.3 million as of September 30, 2009 as follows:

- Overstatement – known difference of \$2.9 million and projected difference of \$20 thousand for a total most likely error of \$2.92 million
- Understatement – known difference of \$880 thousand and projected difference of \$808 thousand for a total most likely error of \$1.69 million.

Criteria:

SOP-39 Standard Operating Procedures – Accounts Payable – Quarterly Liability Estimates

a. An Accounting Operations Branch Accountant will be designated to oversee the procedures below and will be responsible for ensuring that proper liabilities have been recorded on the financial records. The Accountant will also be responsible for reviewing the open obligations listing and establishing a spreadsheet to ensure all obligations have been reviewed.

b. At least one month prior to the reporting months of December, March, June and September, a formal letter will be signed by the CFO/DCFO and sent to the Associate Directors, Assistant Directors, Division and Branch Chiefs, and on-site Partner Organization Representatives. The letter will request assistance from COTRs and/or End Users in providing FIN with the estimated dollar amounts on Blanket Purchase Agreements (BPAs), Contracts, Lease Agreements, utilities, etc., for goods and services received but not invoiced for the quarter end.

c. The quarterly estimated amounts should be provided to FIN so that “Receivers” (RC) and “Itemized Receivers” (IC) are processed in a timely manner before the closing at the end of the month or yearend. A due date of “No Later Than” the 25th day of the month before closing will be required.

d. Once the letter is released, a notice/request will be sent by the accounting technicians to responsible individuals (COTR/End User). Emails and phone calls will be placed by the technicians to the COTRs, end users, or vendors (depending on type of order) to follow up on information needed or not received.

e. Once the estimated amounts are received, the Accounting Technicians will process the RCs and/or ICs into the Momentum Financial System. If the Accounting Technicians do not receive a response, an estimate will be used. The estimate will be based on either historical data or an average amount, whichever would provide the best estimate.

f. The Accounting Technician is required to complete a “RC/IC” Worksheet for each RC and IC. The worksheet will include such information as Momentum document number, amount,

Independent Auditors' Report
Exhibit II – Significant Deficiencies

calculation method, etc. The technician should also attach all supporting documentation to the worksheet.

g. As the RC and IC are processed in Momentum, the Accounting Technician will provide the RC/IC Worksheet to an accountant along with supporting documentation. The accountant will then review and ensure all estimates have been properly calculated and recorded. The accountant will follow-up and/or obtain additional information if needed.

h. The Accountant will utilize this information to review and document the Open Obligations Spreadsheet, as mentioned above.

i. The Accounting Technician will utilize the Analysis Worksheet to compare the estimated accrual (RC/IC) to the actual payment associated with the estimate. The Accounting Technician will provide the Accountant with the Analysis Worksheet for further review. The Accountant will review all worksheets to determine if the accounts payable accrual is reasonable.

Recommendations: We recommend that FLETC implement improved policies and procedures to enhance the communication between the contracting officers/program managers and Finance to ensure that the accrual estimate is accurate and reasonable based on the available supporting documentation.

Independent Auditors' Report
Exhibit III– Status of Prior Year Findings

Prior Year Condition	As Reported at September 30, 2008	Status as of September 30, 2009
Financial Reporting	Material weakness: Several weaknesses existed related to the financial reporting process, including reimbursable construction revenue, accounts payable, capital assets and construction in progress, and adjustments to certain budgetary accounts.	Partially corrected; repeated as Material Weakness (Comment I-A)
Environmental Liabilities	Material Weakness: FLETC does not have adequate processes, policies, and procedures in place whereby the EVS identifies, assesses, estimates, and reports to the Finance Division regarding the existence and estimate of environmental liabilities throughout the year.	Repeated as Material Weakness (Comment I-A)
Information Technology General and Application Controls	Significant deficiency: Several weaknesses existed related to Financial Systems Security, such as IT general control weaknesses, entity-wide security program planning weaknesses, system software weaknesses, and service continuity weaknesses.	Partially Repeated (Comment I-B)
Non-compliance with the Anti-deficiency Act	Instance of non-compliance: FLETC was not in substantial compliance with the Anti-deficiency Act as FLETC reported a violation related to classification of a building lease and were investigating the classification of two other building leases.	Corrected



Homeland Security

February 19, 2010

KPMG LLP
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, 2009 and 2008, and the related Independent Auditors' Report. In response to the findings, our concurrence or non-concurrence is as follows:

Exhibit I – Material Weaknesses

- A. Financial Reporting - we concur with the finding.
- B. Information Technology General and Security Controls – we concur with the finding.

Exhibit II – Significant Deficiencies

- C. Controls over the Revenue Process – we concur with the finding.
- D. Controls over the Accounts Payable Estimation Methodology – we concur with the finding.

Sincerely,

A handwritten signature in cursive script that reads "Julie Martin".

Julie Martin
Deputy Chief Financial Officer
Federal Law Enforcement Training Center

Appendix A
Report Distribution

Department of Homeland Security

Secretary
Deputy Secretary
Chief of Staff for Operations
Chief of Staff for Policy
Deputy Chiefs of Staff
General Counsel
Executive Secretariat
Director, GAO/OIG Liaison Office
Assistant Secretary for Office of Policy
Assistant Secretary for Office of Public Affairs
Assistant Secretary for Office of Legislative Affairs
Chief Financial Officer
Chief Information Officer

Federal Law Enforcement Training Center

Director
Chief Financial Officer
Chief Information Officer

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees, as appropriate



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- Email us at DHSOIGHOTLINE@dhs.gov; or
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DHS Office of Inspector General/MAIL STOP 2600,
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245 Murray Drive, SW, Building 410,
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