



Department of Homeland Security Office of Inspector General

Management Letter for the Federal Law Enforcement Training Center's FY 2009 Consolidated Financial Statements





Homeland Security

MAR 29 2010

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 draft report presents the management letter for the Federal Law Enforcement Training Center's (FLETC) fiscal year (FY) 2009 consolidated financial statement audit. It contains observations and recommendations related to internal controls that did not reach the level of materiality to be reported in the financial statement report. Other internal control deficiencies which are considered significant or material were reported, as required, in KPMG LLP's (KPMG) Independent Auditors' Report, dated December 31, 2009. KPMG performed the audit and is responsible for the attached letter and the conclusions expressed in it. We do not express opinions on FLETC's consolidated financial statements, or 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.

A handwritten signature in cursive script that reads "Richard L. Skinner".

Richard L. Skinner
Inspector General



KPMG LLP
2001 M Street, NW
Washington, DC 20036

December 31, 2009

Inspector General
U.S. Department of Homeland Security

Director
Federal Law Enforcement Training Center

Ladies and Gentlemen:

We have audited the 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. In planning and performing our audit of the financial statements of FLETC, in accordance with auditing standards generally accepted in the United States of America, we considered FLETC's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of FLETC's internal control. Accordingly, we do not express an opinion on the effectiveness of FLETC's internal control. In connection with our fiscal year 2009 audit, we also 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.

During our audit we noted certain matters involving internal control and other operational matters that are summarized on page one in the Table of Financial Management Comments, and presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. These comments are in addition to the significant deficiencies and material weaknesses presented in our *Independent Auditors' Report*, dated December 31, 2009, included in the FY 2009 FLETC *Agency 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. Our findings related to information technology general and security controls have been presented in a separate letter to the Office of Inspector General and the DHS Chief Information Officer dated December 31, 2009.

We would be pleased to discuss these comments and recommendations with you at any time.

FLETC's written response to our comments and recommendations has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.



This communication is intended solely for the information and use of DHS and FLETC management, the Office of the 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

U.S. Department of Homeland Security
Federal Law Enforcement Training Center
Table of Financial Management Comments
September 30, 2009

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FMC 09-01 – Contract Review Process Needs Improvement

Conditions:

KPMG selected a statistical sample of 67 expense transactions for the period of October 1, 2008 through June 30, 2009 and obtained the related contract/purchase orders issued by the procurement division. We inspected the documentation supporting each sample to determine whether the contract/purchase order was subjected to the appropriate review prior to issuance and noted the following:

- five instances where the contracts were between \$100,000 and \$500,000, and were not signed by a branch chief.
- one instance where the contract exceeded \$500,000, and was not signed by a branch chief and/or the legal division.

For the period October 1, 2008 through September 30, 2009, KPMG selected a statistical sample of 201 expense transactions and obtained the related contract/purchase orders issued by the procurement division. We inspected the documentation supporting each sample to determine whether the contract /purchase order was subjected to the appropriate review prior to issuance and noted the following:

- one instance where the contract was between \$100,000 and \$500,000, and was not signed by a branch chief.
- four instances where the contract exceeded \$500,000, and was not signed by a branch chief and/or the legal division.

Recommendations:

We recommend that FLETC:

1. Improve its policies and procedures over the contract management process to ensure the proper reviews are completed prior to issuance of a contract.
2. Provide additional training to appropriate personnel to ensure the proper reviews are completed prior to issuance of a contract.
3. As part of FLETC's internal review procedures, contracts should be selected at random throughout the year to ensure that all contracts are receiving the proper level of review.

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FMC 09-02 – Budgetary Controls over Upward/Downward Adjustments

Conditions:

In performing procedures over Standard General Ledger (SGL) 4972 – *Downward Adjustments of Prior-Year Paid Delivered Orders - Obligations, Refunds Collected* and SGL 4982 - *Upward Adjustments of Prior-Year Delivered Orders - Obligations, Paid*, KPMG noted that there was netting activity included in the populations, related to payroll accruals and reversals, which did not represent valid upward and downward adjustments. As such, FLETC performed an analysis to determine what transactions (netting activity) needed to be removed. Upon completion of the analysis, FLETC posted an adjustment for approximately \$5.6 million and \$6.1 million to SGLs 4972 and 4982, respectively. However, we noted that FLETC erroneously posted the adjustment to move the amounts from SGLs 4972 to 4971 – *Downward Adjustments of Prior-Year Unpaid Delivered Orders – Obligations, Recoveries* and from 4982 to 4981 - *Upward Adjustments of Prior-Year Delivered Orders – Obligations, Unpaid*. After additional inquiries, FLETC posted a correcting entry to reverse a portion of the previously posted entries to correct the amounts erroneously posted to SGL 4971 and 4981.

In addition, while performing test work procedures over SGL 4871 - *Downward Adjustments of Prior-Year Unpaid Undelivered Orders -Obligations, Recoveries* sample items, which were statistically selected as of June 30, 2009, KPMG noted one exception where the transaction did not represent a valid downward adjustment (sample C1). We also noted two items (samples B1, partial error, and C2), which were not de-obligated in a timely manner, resulting in downward adjustments in FY 2009 rather than a prior fiscal year. The dollar amount of these items was approximately \$169,000 and \$58,000, respectively.

In performing test work procedures over SGL 4871 - *Downward Adjustments of Prior-Year Unpaid Undelivered Orders -Obligations, Recoveries* sample items, which were statistically selected as of September 30, 2009 for the entire year (10/1/08 through 9/30/09), KPMG noted eight exceptions where the de-obligation was not completed in a timely manner, resulting in a downward adjustment in FY 2009 rather than a prior fiscal year.

Recommendations:

We recommend that FLETC:

1. Implement and perform a comprehensive review process in order to ensure that all activity represents valid upward or downward adjustments.
2. Develop a formal review process in which undelivered order balances are reviewed for accuracy and validity at least semi-annually and ensure that the review is adequately documented. As part of this formal review, include the performance end date field in

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Momentum to better identify those contracts which are approaching the end of their period of performance and/or have passed the end of the period of performance.

FMC 09-03 – Management Review of Charge Card Statements

Conditions:

To test the control over management review of monthly charge card statements, KPMG selected a sample of five cardholders, and examined nine months of purchase card statements for each cardholder for a total sample of 45 charge card statements. The results of testing are as follows:

Cardholder A:

- one instance where the statement was not signed by cardholder or supervisor.

Cardholder B:

- seven instances where the statement was not signed by the cardholder or supervisor.
- two instances where the statement was signed by both cardholder and supervisor, but the supervisor's signatures were not dated, leading to the determination of an untimely approval exception.

Cardholder C:

- two instances where the statement was not signed by the cardholder or supervisor.
- one instance where the statement was signed by both cardholder and supervisor, but the supervisor's approval date was not within the 14 day criteria, leading to the determination of an untimely approval exception.

Cardholder D:

- six instances where the statement was signed by both cardholder and supervisor, but the supervisor's signatures were not dated, leading to the determination of an untimely approval exception.

Cardholder E:

- two instances where the statement was not signed by the cardholder or supervisor.
- one instance where the statement was signed by both cardholder and supervisor, but the supervisor's approval date was not within the 14 day criteria, leading to the determination of an untimely approval exception.

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- one instance where the statement was not signed by the cardholder and the supervisor's approval was not dated, leading to the determination of an untimely approval exception.

KPMG also selected a statistical sample of credit card expenses for the period October 1, 2008 through September 30, 2009, and noted the following:

- one instance (sample #1) where the transaction was not coded to the correct fund. We noted that this transaction was related to minor construction, which is Minor Construction Maintenance (fund code MCM). However, it was incorrectly coded to Operating Expenses (fund code SE).

Recommendations:

We recommend that as part of FLETC's internal audit procedures, purchase card statements should be selected at random throughout the year to ensure that all statements are being reviewed properly, and that they are being coded to the proper fund.

FMC 09-04 – Capital Leases

Conditions:

Furniture that was supplied by the lessor should have been included in the FMV calculation. As management did not include this in their analysis, KPMG performed an analysis to include the furniture in the calculations. Firstly, property, plant and equipment and the capital lease liability should be increased by \$6.6 million, which represents \$2.2 million for each of the three leases, as shown by the following entry:

Debit Property, Plant and Equipment	\$6,600,000
Credit Capital Lease liability	\$6,600,000

Then a proposed entry is needed to account for the depreciation of this furniture. The following is the proposed entry:

Debit Depreciation expense	\$330,000
Debit Cumulative Results of Operations	\$1,980,000
Credit Accumulated Depreciation	\$2,310,000

Secondly, the discount rate (i.e. FLETC's incremental borrowing rate) should be the interpolated average of the nominal Treasury interest rates for 10-year and 30-year Treasury bills for calendar year 2001 (building #1) and 2002 (building #2 and #3). The interest rate for building #1 should be 5.35% and the rate for building #2 and #3 would be 5.45%. This causes a change to the approximate amount that should be capitalized for each lease as follows:

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	Building 1	Building 2	Building 3
Amount recorded in FY 2006	\$22,727,000	\$21,871,000	\$23,566,000
Amount to record based on rate	\$21,155,000	\$20,611,000	\$21,629,000

Since the fair market value of the building has decreased, the liability and property, plant and equipment is overstated. Therefore, the following proposed entry is needed:

Debit Capital Lease liability	\$4,700,000	
Credit Property, Plant and Equipment		\$4,700,000

Then a proposed entry is needed to account for the depreciation relating to this reduction in property, plant and equipment. The following is the proposed entry:

Debit Accumulated Depreciation	\$1,645,000	
Credit Depreciation expense		\$235,000
Credit Cumulative Results of Operations		\$1,410,000

Finally, the Capital Lease liability is overstated due to the amortization of these adjustments. The following is the proposed adjustment:

Debit Capital Lease Liability	\$926,000	
Credit Interest expense		\$141,000
Credit Cumulative Results of Operations		\$785,000

Recommendations:

We recommend FLETC perform the following:

1. Improve the process to document the evaluation of the criteria determining whether leases should be classified as capital or operating leases and require a supervisor to agree the evaluations to the supporting documentation and to approve the evaluations.
2. Ensure that all aspects of the lease arrangement have been taken into consideration.
3. Provide additional guidance and training to personnel on the process of identifying whether leases should be classified as capital or operating leases and on preparing the future minimum lease payment schedule consistent with known technical literature.

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Crosswalk - NFRs to Disposition in Independent Auditors' Report or Management Letter
 September 30, 2009

Component	NFR No.	Description	Disposition ⁱ				
			IAR ⁱⁱ			FMC	
			MW	SD	NC	Page(s)	No.
FLETC	09-16	Contract Review Process Needs Improvement				2	09-01
FLETC	09-20	FFMIA			*		
FLETC	09-23	Untimely Capitalization of PP&E	A				
FLETC	09-26	FMFIA			**		
FLETC	09-27	Budgetary Controls Over Upward/Downward Adjustments				3-4	09-02
FLETC	09-28	Improper Expensing and Capitalization of CIP & PP&E Costs	A				
FLETC	09-29	Management Review of the Billing Process		C			
FLETC	09-30	Management Review of Charge Card Statements				4-5	09-03
FLETC	09-31	Accounts Payable Estimation Methodology		D			
FLETC	09-32	Untimely Referral of Receivables to Treasury <i>(Debt Collection Improvement Act of 1996)</i>			***		
FLETC	09-33	Budgetary Controls Over Upward/Downward Adjustments – Untimely De-obligations				3-4	09-02
FLETC	09-34	Controls over Financial Reporting	A				
FLETC	09-35	Capital Leases				5-6	09-04

* FFMIA non-compliance has been considered and reported at the DHS consolidated level

** FMFIA non-compliance has been considered and reported at the DHS consolidated level

*** Per Government Auditing Standards, section 5.10, fraud and illegal acts that have an inconsequential effect on the financial statements are not required to be included in the independent auditors' report.

ⁱ Disposition Legend:

IAR Independent Auditors' Report

FMC Financial Management Comment

MW Material Weakness

SD Significant Deficiency

NC Noncompliance with laws, regulations, and contracts as reported in the IAR

ⁱⁱ The following links to the applicable sections of the IAR:

A Financial Reporting

B Information Technology General and Security Controls

C Controls over the Revenue Process

D Controls over the Accounts Payable Estimation Methodology

U.S. Department of Homeland Security
 Federal Law Enforcement Training Center
Status of Prior Year Findings
 September 30, 2009

Component	NFR No.	Description	Disposition	
			Closed	Repeat (FY 2009 NFR No.)
FLETC	08-01	The Process to Identify and Record Environmental Liabilities Needs to be Improved.		09-34
FLETC	08-04	Unrecorded Liabilities Exist as of 9/30/09	X	
FLETC	08-13	Capital Lease Liability	X	
FLETC	08-16	Contract Review Process Needs Improvement		09-16
FLETC	08-20	FFMIA non-compliance		09-20
FLETC	08-21	Unbilled Reimbursable Revenue	X	
FLETC	08-22	Journal Voucher Weaknesses	X	
FLETC	08-23	Weaknesses Related to CIP		09-23
FLETC	08-24	Aged Federal Receivables – Untimely Collection	X	
FLETC	08-25	Fixed Assets not Depreciated	X	
FLETC	08-26	FMFIA		09-26
FLETC	08-27	Completeness of Unfilled Customer Orders	X	

U.S. Department of Homeland Security
Federal Law Enforcement Training Center
Management Response to The Draft Management Letter
September 30, 2009


Federal Law Enforcement Training Center
U. S. Department of Homeland Security
1131 Chapel Crossing Road
Glynco, Georgia 31524



Homeland
Security

February 25, 2010

MEMORANDUM FOR: Anne L. Richards
Assistant Inspector General for Audits
DHS Office of Inspector General

FROM: Alan L. Titus 
Chief Financial Officer

SUBJECT: Comments on the *Draft Report: Management Letter for the
Federal Law Enforcement Training Center's FY 2009
Consolidated Financial Statements – FOUO*
Reference our Letter of February 8, 2010

The Federal Law Enforcement Training Center (FLETC) provided our comments on the draft management letter on February 8, 2010. However, we did not state our concurrence on the findings and recommendations on all of the items identified in the report. We do concur on all of the findings with the exception of FLETC NFR No. 09-32. We explained our position on that NFR in our February 8th letter.

If you need additional information concerning this matter please contact Julie Martin, Deputy CFO at (912)267-2400.

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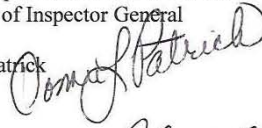
Federal Law Enforcement Training Center
U. S. Department of Homeland Security
1131 Chapel Crossing Road
Glynnco, Georgia 31524




**Homeland
Security**

February 8, 2010

MEMORANDUM FOR: Anne L. Richards
Assistant Inspector General for Audits
DHS Office of Inspector General

VIA: Connie L. Patrick 
Director

FROM: Alan L. Titus 
Assistant Director
Chief Financial Officer Directorate

SUBJECT: Comments on the *Draft Report: Management Letter for the
Federal Law Enforcement Training Center's FY 2009
Consolidated Financial Statements – FOUO*

The Federal Law Enforcement Training Center (FLETC) appreciates the opportunity to comment on the draft management letter.

In Appendix A of the draft management letter, we recommend citing Government Auditing Standards Section 5.10 (*Reporting Deficiencies in Internal Control, Fraud, Illegal Acts, Violations of Provisions of Contracts or Grant Agreements, and Abuse*) vice Section 5.15 (*Fraud, Illegal Acts, Violations of Contracts or Grant Agreements, and Abuse*) for FLETC NFR No. 09-32 (*Untimely Referral of Receivables to Treasury (DCIA)*) as the basis for not including the NFR in the independent auditors' reports due to the inconsequentiality of non-compliance with the Debt Collection Improvement Act.

Citing Section 5.15 specifically implies that the audit team detected fraud and illegal acts while performing test work on delinquent receivables. FLETC is unaware of any discussions on fraud or illegal acts with the audit team. As asserted in the FLETC FY 2009 Management Representation Letter, FLETC has no knowledge of any fraud or suspected fraud involving management or employees.

If you need additional information concerning this matter please contact Julie Martin, Deputy CFO at (912)267-2400.

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Appendix A
Report Distribution

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