

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

Federal Law Enforcement Training Center's Management Letter for FY 2011 DHS Consolidated Financial Statements Audit





**Homeland
Security**

MAR 14 2012

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 Federal Law Enforcement Training Center's Management Letter for FY 2011 DHS Consolidated Financial Statements Audit. It contains observations related to internal controls that were not required to be reported in the financial statements audit report. The independent public accounting firm KPMG LLP (KPMG) performed the integrated audit of DHS' FY 2011 financial statements and internal control over financial reporting and prepared this management letter. KPMG is responsible for the attached management letter dated February 3, 2012 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 observations herein have been discussed in draft with management officials. 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, reading "Anne L. Richards".

Anne L. Richards
Assistant Inspector General for Audits



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

February 3, 2012

Office of Inspector General
U.S. Department of Homeland Security, and
Chief Financial Officer,
U.S. Department of Homeland Security Federal Law Enforcement Training Center
Washington, DC

Ladies and Gentlemen:

We have audited the balance sheet of the U.S. Department of Homeland Security (DHS or Department) as of September 30, 2011 and the related statement of custodial activity for the year then ended (referred to herein as the “fiscal year (FY) 2011 financial statements”). The objective of our audit was to express an opinion on the fair presentation of these financial statements. We were also engaged to examine the Department’s internal control over financial reporting of the balance sheet as of September 30, 2011, and statement of custodial activity for the year then ended, based on the criteria established in Office of Management and Budget, Circular No. A-123, *Management’s Responsibility for Internal Control*, Appendix A.

Our *Independent Auditors’ Report* issued on November 11, 2011, describes a limitation on the scope of our audit that prevented us from performing all procedures necessary to express an unqualified opinion on DHS’ FY 2011 financial statements and internal control over financial reporting. In addition, the FY 2011 DHS *Secretary’s Assurance Statement* states that the Department was unable to provide assurance that internal control over financial reporting was operating effectively at September 30, 2011. We have not considered internal control since the date of our *Independent Auditors’ Report*.

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 material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected 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. In accordance with *Government Auditing Standards*, our *Independent Auditors’ Report*, referred to in the paragraph above, included internal control deficiencies identified during our audit, that individually, or in aggregate, represented a material weakness or a significant deficiency.

The Federal Law Enforcement Training Center (FLETC) is a component of DHS. We noted certain matters, related to FLETC that are summarized in the Table of Financial Management Comments on the following pages, involving internal control and other operational matters that are less severe than a material weakness or a significant deficiency, and consequently are reported separately to the Office of Inspector General (OIG) and FLETC management in 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. The disposition of each internal control deficiency identified during our FY 2011 audit – as either reported in our *Independent Auditors’ Report*, or herein – is presented in Appendix A. The



status of internal control deficiencies identified during our FY 2010 audit is presented in Appendix B.

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 FLETC'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

Federal Law Enforcement Training Center
Table of Financial Management Comments
September 30, 2011

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

Comment Reference	Subject	Page
FMC 11-01	Capitalization of Property, Plant, and Equipment	2

APPENDIX

Appendix	Subject	Page
A	Crosswalk – Financial Management Comments to Active Notices of Finding and Recommendation (NFRs)	3
B	Status of Prior Year NFRs	4

FMC 11-01 – Capitalization of Property, Plant, and Equipment (NFR No. FLETC 11-01)

During testwork over property, plant, and equipment (PP&E) as of June 30, 2011 and September 30, 2011, KPMG noted the following issues:

- One instance where costs related to a construction in progress (CIP) project had not been capitalized from the inception of the project which resulted in the project being capitalized untimely in fiscal year (FY) 2011. This resulted in CIP and cumulative results of operations being understated in FY 2010.
- One instance where a flag pavilion addition was not recorded as a capitalized asset until six months after the completion of the project. Once capitalized, the Federal Law Enforcement Training Center (FLETC) applied the correct in-service date so depreciation was correctly applied.
- One instance where software under development was put into use in September 2010 though the software was not reclassified from software under development to internal use software (IUS) until September 2011, one year later. This resulted in United States Standard General Ledger account (USSGL) 1830, *Internal Use Software*, being understated in FY 2010, USSGL 1832, *Software In Development*, being overstated in FY 2010, and USSGL 1839, *Accumulated Depreciation- Software*, being understated in FY 2010. Additionally, when the software was reclassified, the in-service date was recorded as February 1, 2011, and it should have been September 2010. This resulted in depreciation expense and accumulated depreciation being understated in FY 2011.
- When the accounts payable accrual was calculated, the portion related to PP&E was not reclassified from USSGL 6100, *Expenses*, to USSGL 1720, *Construction in Progress*. This resulted in an overstatement of Expenses and an understatement of CIP as of September 30, 2011.

Recommendations:

We recommend that the FLETC Finance Division (FIN):

- Implement more aggressive follow-up for submission of capitalization reports from program/project managers upon project completion, contract closeout or building occupancy, whichever comes first. If a capitalization report is not received within ten days, FIN prepares an interim preliminary capitalization report to effect the reclassification of CIP into the general asset account.
- Emphasize to Contracting Officer's Technical Representatives, end-users and program staff the importance of timely input of receiving reports and submission of invoices for payment in financial reporting accuracy and operating efficiencies related to bulk purchases.
- Continue to perform manual reviews monthly as an additional check on bulk purchase field operational procedures and identify necessary updates to FLETC standard operating procedures related to bulk purchase policies and capitalization threshold.
- Collaborate with the Software In Development team, the Student Administration and Scheduling System Program Managers, to establish a communication process whereby FIN will be alerted as software modules/releases are put into production.
- Strengthen monitoring and review of accrued expenses related to construction projects for reclassification into CIP at fiscal yearend by adding the tasks as a key item in the FIN Year-end Closeout Checklist.

Federal Law Enforcement Training Center
 Crosswalk - Financial Management Comments to Active NFRs
 September 30, 2011

NFR No.	Description	Disposition ¹			
		IAR			FMC
		MW	SD	NC	No.
11-01	Capitalization of Property Plant & Equipment				11-01

¹Disposition Legend:

IAR	Independent Auditors' Report dated November 11, 2011
FMC	Financial Management Comment
MW	Contributed to a Material Weakness at the Department level when combined with the results of all other components
SD	Contributed to a Significant Deficiency at the Department level when combined with the results of all other components
NC	Contributed to Non-Compliance with laws, regulations, contracts, and grant agreements at the Department level when combined with the results of all other components
NFR	Notice of Finding and Recommendation

Cross-reference to the applicable sections of the IAR:

A	Financial Reporting
B	Information Technology Controls and System Functionality
C	Property, Plant, and Equipment
D	Environmental and Other Liabilities
E	Budgetary Accounting
F	Entity-Level Controls
G	Fund Balance with Treasury
H	Grants Management
I	Custodial Revenue and Drawback
J	<i>Federal Managers' Financial Integrity Act of 1982 (FMFIA)</i>
K	<i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i>
L	<i>Single Audit Act Amendments of 1996</i>
M	<i>Chief Financial Officers Act of 1990 (CFO Act)</i>
N	<i>Antideficiency Act, as amended (ADA)</i>
O	<i>Government Performance and Results Act of 1993 (GPRA)</i>

Federal Law Enforcement Training Center
Status of Prior Year NFRs
 September 30, 2011

NFR No.	Description	Disposition ¹	
		Closed ²	Repeat (2011 NFR No.)
10-01	Management Review of Purchase Card Statements	X	
10-02	FFMIA Compliance	X	
10-03	Accounts Payable Estimation Methodology & True-Up Analysis	X	

¹ 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, 2011, 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, 2011. In addition, we were engaged to follow-up on the status of all active NFRs that supported significant deficiencies reported in our FY 2010 *Independent Auditors' Report*.

² The scope of our audit was limited to follow-up on NFRs that supported a material weakness or significant deficiency as reported in our *Independent Auditors' Report*. All other NFRs, e.g., that described insignificant findings, and therefore presented to DHS management as observations for consideration, were considered closed.

Report Distribution

Department of Homeland Security

Secretary
Deputy Secretary
Chief of Staff
Deputy Chief of Staff
General Counsel
Executive Secretary
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
Audit Liaison

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees, as appropriate

ADDITIONAL INFORMATION AND COPIES

To obtain additional copies of this report, please call the Office of Inspector General (OIG) at (202)254-4100, fax your request to (202)254-4305, or e-mail your request to our OIG Office of Public Affairs at DHS-OIG.OfficePublicAffairs@dhs.gov. For additional information, visit our OIG website at www.oig.dhs.gov or follow us on Twitter @dhsoig.

OIG HOTLINE

To report alleged fraud, waste, abuse or mismanagement, or any other kind of criminal or noncriminal misconduct relative to Department of Homeland Security programs and operations:

- Call our Hotline at 1-800-323-8603
- Fax the complaint directly to us at (202)254-4292
- E-mail us at DHSOIGHOTLINE@dhs.gov; or
- Write to us at:
DHS Office of Inspector General/MAIL STOP 2600,
Attention: Office of Investigation - Hotline,
245 Murray Drive SW, Building 410
Washington, DC 20528

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