Department of Homeland Security
Office of Inspector General

Independent Auditors' Report on FLETC FY 2008 Consolidated Financial Statement

OIG-09-61

April 2009

Office of Inspector General

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

April 16, 2009

Preface

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

The attached report presents the results of our audit of the Federal Law Enforcement Training Center's (FLETC) consolidated financial statement audits for the fiscal year (FY) 2008 and FY 2007. We contracted with the independent public accounting firm KPMG LLP to perform the audits. The contract required that KPMG LLP 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 LLP concluded that FLETC's consolidated financial statements as of and for the years ended September 30, 2008 and 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. The FY 2008 auditor's report discusses three significant deficiencies of which two are considered to be material weaknesses, as well as one instance of noncompliance with laws and regulations. KPMG is responsible for the attached draft auditor's report and the conclusions expressed in the report. We do not express opinions on FLETC's financial statements or internal control or provide conclusions on compliance with laws and regulations.

The recommendations herein have been discussed 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

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Inspector General

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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, 2008 and 2007, 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 audit was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2008 audit, we also considered FLETC's internal controls 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 the FLETC's consolidated financial statements as of and for the years ended September 30, 2008 and 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 18, certain balances previously reported in the consolidated financial statements as of and for the year ended September 30, 2007 have been restated to correct errors in accounting for reimbursable revenue, environmental liabilities and unfilled customer orders, which are discussed in Exhibit I. These corrections are also described in Exhibits I-A and I-B.

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

A. Financial Reporting
B. Environmental Liabilities
C. Information Technology General and Application Controls

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 one instance of noncompliance with the following law that is required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*:

D. *Anti-deficiency Act*

The following sections discuss our opinion on FLETC's consolidated financial statements; our consideration of FLETC's internal controls 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 Financial Statements

We have audited the accompanying consolidated balance sheets of the U.S. Department of Homeland Security's (DHS) Federal Law Enforcement Training Center (FLETC) as of September 30, 2008 and 2007, 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, 2008 and 2007, 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.

As discussed in Note 18, certain balances previously reported in the consolidated financial statements as of and for the year ended September 30, 2007 have been restated to correct errors in accounting for reimbursable revenue, environmental liabilities and unfilled customer orders. These corrections are also described in Exhibits I-A and I-B.

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 are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control over Financial Reporting

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

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

In our fiscal year 2008 audit, we consider the deficiencies, described in Exhibits I and II, to be significant deficiencies in internal control over financial reporting. However, of the significant deficiencies described in Exhibits I and II, we believe that the significant deficiencies presented in Exhibit I are material weaknesses. Exhibit IV presents the status of prior year significant deficiencies.

Compliance and Other Matters

The results of certain of our tests of compliance as described in the Responsibilities section of this report, disclosed one instance of noncompliance or other matter that is required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, and is described in Exhibit III.

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

Other Matter. FLETC management has identified a matter that has been reported as a violation of the Anti-deficiency Act related to the classification of a building lease. The Office of Inspector General has initiated a review of the classification of two additional building leases at FLETC that may identify violations of the *Anti-deficiency Act,* or other violations of appropriations law that may have occurred during FY 2008 or during previous years.

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 2008 and 2007 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 2008 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 internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of 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 2008 consolidated financial statements are free of material misstatement, we performed tests of FLETC's compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. 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 contract agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

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

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

March 26, 2009

I-A Financial Reporting

Background: The U.S. Department of Homeland Security's (DHS) Federal Law Enforcement Training Center (FLETC) primary line of business is to provide law enforcement training at its four US facilities for DHS components and over 80 federal and 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 all 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 build specialized training facilities. FLETC pays for the cost of construction with its own 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:

Reimbursable Construction Revenue:
FLETC did not have adequate policies and procedures in place to ensure that reimbursable construction revenue is recorded in the same fiscal year that the associated expenses are incurred. We noted 3 instances where reimbursable construction revenue was recognized in fiscal year (FY) 2008, when the related expenses were incurred and accrued or paid during FY2007. The three errors identified by us totaled approximately $9 million of unrecorded revenue as of September 30, 2007. After the discovery of these errors FLETC performed a review of reimbursable construction expenses recognized in FY 2007, and identified an additional $2.1 million of unrecorded reimbursable revenue at September 30, 2007. As a result, FLETC recorded an adjustment and restated its September 30, 2007 financial statements for $11.1 million, to correct these errors.

Accounts Payable:
FLETC does not have a policy or process to systematically validate its accounts payable accrual estimates to ensure that the process is producing accurate and complete financial statement balances. In addition, management review controls are not operating effectively. We noted several errors in the accounts payable accrual recorded at September 30, 2008. After the discovery of these errors, FLETC management performed additional procedures over the accuracy and completeness of the accounts payable accrual. The procedures, which were performed approximately three months after fiscal year-end, resulted in FLETC increasing its accounts payable accrual at September 30, 2008, by approximately $4 million.

Capital Assets and Construction in Progress:
FLETC Finance Division and the construction project and/or site managers do not always follow established FLETC policies and procedures to ensure that its capitalized assets, including construction in progress, are accounted for completely and accurately. For example:

- FLETC did not always record the correct date of capitalization in its fixed asset system. This information is used by the system to compute and record depreciation expense. We noted 2 instances (totaling approximately $5.6 million) out of 10 samples selected for testwork where the costs of the assets were entered in the fixed asset system but the in-service (capitalization) dates were not. Consequently, depreciation expense was not recorded accurately or timely.

- FLETC has not recorded transfers of completed assets from construction in progress (CIP) to in-use assets in its general ledger at the Artesia location in a timely manner.
  - We noted that 5 out of 7 assets tested were not transferred to capitalized assets timely as of March 31, 2008.
  - We also noted 8 instances out of 12 sample items tested where the completed construction projects were not transferred to capitalized assets timely. All 8 of the completed assets should have been reclassified to capitalized assets prior to April 1, 2008.
- FLETC does not properly capitalize all construction related expenses, e.g., construction management labor, until the end of construction, or perform periodic analysis to determine if the expenses should be recorded for interim and year-end reporting if material. The expenses are reclassified to capital assets when construction is complete – which in some cases is more than a year resulting in temporarily misstated capital assets and expenses reported in FLETC's financial statements.

Adjustments to Certain Budgetary Accounts:

FLETC does not have the adequate policies and procedures for recording certain upward and downward adjustments of undelivered orders, and unfilled customer orders related to reimbursable construction contracts. We noted that:

- One adjustment to undelivered orders tested during FY 2008 totaling $4.2 million was posted in error, and the adjustment was not recorded in full compliance with the United States Standard General Ledger (USSGL). Because of this error, FLETC's total budgetary resources and total status of budgetary resources lines on the Statement of Budgetary Resources were overstated. The existence of invalid upward and downward adjustments is a repeat condition that was reported in our FY 2007 report. FLETC management represents that its Momentum System upgrade, completed in August 2008, will correct this condition.
- For long-term reimbursable construction contracts, FLETC has incorrectly adjusted certain unfilled customer order account balances at the end of FY 2008 and prior years. This resulted in FLETC understating budgetary resources in each year FLETC had open customer orders for construction. As a result of this error FLETC restated its FY 2006 and 2007 financial statements to increase its unfilled customer orders by $10.6 million and $36.0 million, and corrected an error totaling $ 38.1 million recorded to unfilled customer orders in FY 2008.
- For annual funds related to reimbursable training and supplies and services, FLETC did not properly reduce the unfilled customer order to zero at year end as no future billings would be made. This resulted in unfilled customer orders being overstated by $4.5 million and $9.8 million in FY 2007 and 2008, respectively.

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

Cause/Effect: FLETC has separate financial reporting processes for construction expenses and revenue and therefore reimbursable construction expenses may be incurred, and the related construction revenue not recorded timely, resulting in a temporary understatement of accounts receivable and revenue. FLETC did not have a procedure to review the expenses incurred (and accrued) for potential reimbursable construction revenue that should also be recorded at year end. Additionally, FLETC did not follow the Treasury posting model for recording reimbursable expenses which would have ensured that the related accounts receivable and revenues were recorded at the same that the expenses were accrued.

FLETC is unable to assert to the validity of its accounts payable accrual, because they do not validate that the estimation process is working as intended, e.g., routinely producing reliable and timely accrual estimates. Consequently, FLETC's year-end accounts payable accrued balances and expenses may be misstated by a material amount.

FLETC has established policies and procedures to account for CIP; however they are not always followed. The FLETC's Finance Division is dependent on the timely and accurate reporting of construction activities, and the project/site managers are not always reporting building status timely. In addition, contracting officers are not always providing necessary information to the Finance Division in a timely manner. The conditions noted above could result in periodic misstatements of CIP in the financial statements.

FLETC must record manual JVs to correct invalid upward and downward adjustments caused by the Momentum system's non-compliance with USSGL. Errors in these manual adjustments could result in material misstatements in the financial statements.

FLETC's policies and procedures do not provide sufficient detail on all types of reimbursable contracts.

We noted that the conditions, which lead to auditor identified current and prior year financial statement adjustments and restatements occurred in part due to ineffective monitoring controls within the finance division and/or inadequate communications, e.g., policies and procedures established with other divisions within FLETC, such as Budget and Procurement. These control deficiencies are an indicator of weaknesses in direct entity-level controls.

All of the conditions noted above may adversely affect FLETC's ability to accurately report the results of its financial operations in a timely manner to the Department and the other users of its financial statements.

Criteria: Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control,* 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."

Statement of Federal Financial Accounting Standards (SFFAS) No. 7 – *Accounting for Revenue and other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, paragraphs Nos. 36 and 118 state in relevant parts: "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." And "[m]atching revenue with cost in a … uniform manner is essential in evaluating agency performance and setting price. Therefore, costs should be matched against the provision of goods and services with revenue matched against those costs and thus with revenue also matched against the same provision of goods and services." In addition, FLETC recently issued FIN SOP-59 – *Recording of Revenues for Accrued Reimbursable Expenses* to strengthen controls over the year-end revenue accrual process.

FLETC has SOPs, e.g., FIN SOP-7, *Construction in Progress* (*CIP) Account*, FIN SOP-5 *Capitalization of Assets*, and Property Management (PMD) SOP #9, *Real Property SOP* that establish policy for the timely and accurate accounting for CIP.

Recommendations: We recommend that FLETC:

Regarding Reimbursable Construction Revenue:

1. Develop and implement policies and procedures to ensure that reimbursable construction revenue is computed and recorded to match the related expenses that are accrued at year end; and
2. Implement controls to ensure that FLETC adheres to guidelines in the recently issued FIN SOP-59, and that the controls are operating effectively throughout the year.

Regarding Accounts Payable:

3. Develop and implement policies and procedures to test and validate the reliability of the method used to estimate accounts payable;
4. After the methodology is proven to be reliable, then adopt a system of routine validation of the estimate to ensure the data (input to the methodology) is accurate and complete; and
5. Improve training for some personnel, i.e., contracting officers and new Finance Division staff on the accrual process.

Regarding Capital Assets and Construction in Progress:

6. Adhere to FIN SOP-5, FIN SOP-7, PMD SOP #9, and other appropriate policies and procedures to ensure timely transfers of completed assets from CIP to in-use assets, and to ensure that CIP assets are properly recognized in the correct accounting period;
7. Consider adopting year-end cut-off procedures to identify assets that may have been recently placed in service, however remain in CIP;
8. Consider the cost/benefit of:
   a. Establishing a process to allocate and capitalize indirect labor expense contemporaneously as projects are constructed; and
   b. Procedures to ensure amounts are appropriately capitalized during construction of CIP projects instead of being recorded as operating expenses.

Regarding Certain Budgetary Adjustments:

9. Ensure that the Momentum system upgrade posting logic / models are designed to allow full compliance with the USSGL and prevent the occurrence of invalid upward and downward adjustments.
10. Design and implement policies and procedures to properly account for unfilled customer orders related to all types of reimbursable contracts.

In addition, we recommend that FLETC strengthen entity-level controls, particularly in the areas of communications and monitoring, supervision, training, instruction and oversight of non-accounting personnel that are essential to the accounting process, and fair and timely presentation of financial statement balances.

We also recommend that FLETC improve its review procedures to assist the Department with its compliance with FMFIA and OMB Circular A-123 to ensure that all material weaknesses are identified and reported to the Department.

I-B Environmental Liabilities

Background: FLETC maintains a number of firing ranges in four locations. FLETC also has facilities that contain lead-based paint and asbestos, where environmental liabilities may exist. In 2007 we identified and reported a control deficiency related to FLETC's process of estimating its environmental clean-up costs liability. At the time of our 2008 audit, FLETC had not corrected the control deficiency, and we determined that the FLETC environmental liability balances may be materially misstated. FLETC management then performed a review of the supporting information provided by the FLETC Environmental and Safety Division (EVS) engineers. In October 2008, FLETC EVS and Finance Division determined that the environmental liability was materially misstated, and recorded a correction of error to restate its FY2007 and prior year financial statements. FLETC also issued SOP EVS-011 – *Environmental Liabilities* to improve its controls over the accumulation of data and the reporting of environmental liabilities. This SOP was issued after our fieldwork and we have not reviewed the design or operating effectiveness of the new controls established by this SOP.

Conditions: During our fieldwork conducted in August and September 2008, and prior to management's review conducted in October 2008, we noted the following control weaknesses related to environmental liabilities.

- FLETC did 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. Related to the lack of policies and procedures:
  - FLETC had not fully implemented its corrective action plan to remedy the conditions identified in previous year audits as of August 2008. Specifically, the new SOP was not complete at the time of our meeting with the persons responsible for identifying and estimating FLETC environmental liabilities.
  - FLETC does not have the necessary policies and procedures in place to exercise "due care", as defined in Federal Financial Accounting and Auditing Technical Release No.2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*.
- FLETC does not have the necessary financial management, 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. For example:
  - Policies and procedures establishing the Finance Division's responsibility for the estimates provided by EVS, and the management monitoring control are not effective.
  - We identified numerous material mathematical and calculation errors in the October report provided by EVS which were not identified by Finance Division reviews. FLETC subsequently changed their September 30, 2008 estimate from $17.0 million to $21.0 million.

These control weaknesses resulted in a restatement of FLETC's FY2007 and prior year financial statements to increase the environmental liability estimates from $13.8 million to $20.9 million and reduce FY 2007 gross cost by $2.3 million.

Cause/Effect: Preceding the new issuance of SOP EVS-011, there was a lack of a clear and effective process within the EVS Division for identifying, assessing, estimating and reporting environmental liabilities to the Finance Division. In addition, the Finance Division has not fully assumed responsibility for the accuracy the environmental liabilities presented in the financial statements, and did not have sufficient oversight or review of EVS' work. The lack of a process or adherence to a process for identifying and accounting for environmental liabilities may lead to material misstatements in the environmental clean-up costs liability estimate.

Criteria: Statement of Federal Financial Accounting Standards (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 states, "liabilities shall be recognized when the following conditions are met:

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

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.

Statement of Federal Financial Accounting Standards (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 "Cleanup may include, but is not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and post-closure costs."

Recommendations: Our recommendations are current at the time of our audit, and do not consider FLETC's recently issued SOP EVS-011. We recommend that FLETC management:

1. Complete and implement a corrective action plan to address our prior year control deficiency as discussed in the Background section above;
2. Develop and implement adequate processes, policies, and procedures to ensure EVS performs the necessary procedures to satisfy their responsibilities related to the environmental liability estimate and Technical Release No.2. Also, implement procedures to ensure appropriate levels communication and coordination between EVS and the Financial Management Team;
3. Implement policies and procedures to properly exercise Due Care, as defined in Technical Release No.2, throughout the year related to the environmental clean-up cost liability estimation process; and
4. Implement the necessary financial management, supervisory and monitoring controls to effectively manage (through policies and procedures) the annual process of estimating the liability (in coordination with EVS), and performing the appropriate level of review of EVS' work.

(See Exhibit I for Comments A and B)

II-C Information Technology General and Application Controls

Background: FLETC performed a significant information technology (IT) system upgrade in August 2008 which made numerous changes to their IT environment. This upgrade is related to FLETC's Momentum financial reporting system – its core general ledger system. The objective of this upgrade was, in part, to strengthen the overall IT control environment and to correct many of the IT general control weaknesses that had been identified in prior years. The Momentum upgrade from version 3.7 to version 6.1 was completed in August 2008.

Conditions: The same IT control weaknesses identified during our FY 2007 audit existed for a majority of FY 2008 since the upgrade wasn't completed until August 2008. The most significant weaknesses related to access controls, application software development, and change controls. However, we also identified weaknesses in entity-wide security program planning and management, system software and service continuity. We noted that some systems were not configured in the most secure manner, some policies and procedures and corrective actions remained in draft form and had not been implemented, test plan standards and procedures had not been implemented, and some back-up and contingency systems had not been tested.

Cause/Effect: Collectively, the IT control deficiencies that existed during a majority of the FY2008 limit FLETC's ability to ensure that critical financial and operational data is maintained in such a manner to ensure confidentiality, integrity, and availability. The upgraded Momentum version 6.1 may help to remediate many of these IT control weaknesses.

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: The Momentum upgrade occurred too late in the audit cycle for us to fully evaluate the design and operating effectiveness of the updated IT general controls and certain IT application controls. Therefore, we have no recommendations at this time.

(See Exhibit I for Comments A and B, and Exhibit II for Comment C)

III-D The Anti-deficiency Act (ADA)

FLETC management notified us of an *Anti-deficiency Act* (ADA) violation that occurred at FLETC, where a capital lease dating back to FY2001 was not fully funded. The DHS Secretary has reported the violation to the President of the United States, the President of the Senate, the Speaker of the House of Representatives, and the Comptroller General, as required by 31 U.S.C. Section 1351. The FLETC ADA violation described above relates to one building lease. DHS reviewed two similar building leases, but determined that the funding of those leases did not violate the ADA because they were operating leases, rather than capital leases. Management has released Procurement (PRO) SOP No. 08-0005, *Lease Acquisition Process*, dated August 7, 2008 to implement corrective policy to prevent ADA violations related to building leases from occurring in the future. Accordingly, FLETC management considers the issue closed, and no further review is planned by management.

The DHS OIG has initiated an investigation into the classification of the two building leases determined by DHS to be operating leases, to evaluate the propriety of FLETC's conclusions regarding compliance with the ADA. The OIG's review may identify additional ADA violations.

Recommendations: We have not audited the design or operating effectiveness of PRO SOP 08-0005. FLETC should monitor the OIG review to determine if further changes to policy and procedures or improvements in internal controls are necessary to prevent any future ADA violations.

Prior Year Condition	As Reported at September 30, 2007	Status as of September 30, 2008
Management Review of Upward and Downward Adjustments	**Material weakness:** Several weaknesses existed related to upward and downward adjustments. Transactions affecting upward and downward adjustment accounts were not valid upward and downward adjustments. Also, Momentum financial desktop was configured incorrectly per the U.S. Government Standard General Ledger (USSGL). This forced the FLETC finance division to prepare manual journal vouchers to reclassify amounts during close out procedures at year-end. Errors in the above conditions led to FLETC recording a correcting upward/downward adjustment at year-end totaling more than $15 million.	**Repeated as Material Weakness (Comment I-A)**
Environmental Clean Up Costs	**Significant deficiency:** Several weaknesses existed related to environmental clean up costs, including an inconsistent application of the methodology used to estimate environmental liabilities resulting in a net overstatement of total liabilities, and a finding of costs that were capitalized related to asbestos abatement that should have been expensed in the period incurred.	**Repeated as Material Weakness (Comment I-B)**
Accounts Payable	**Significant deficiency:** FLETC had not developed or implemented adequate policies or a process for estimating/accruing Accounts Payable liabilities at fiscal year end.	**Repeated as Material Weaknesses (Comment I-A)**
Financial Systems Security	**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.	**Repeated (Comment II-C)**
Non-compliance with the *Federal Financial Management Improvement Act*	**Instance of non-compliance:** FLETC was not in substantial compliance with FFMIA. FFMIA requires that an agency's financial management systems substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.	**Reported at DHS Consolidated Level**

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

Homeland Security

March 23, 2009

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, 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. Environmental Liabilities – we concur with the finding.

Exhibit II – Significant Deficiencies

C. Information Technology General and Application Controls – we concur with the finding.

Exhibit III – Noncompliance with Laws and Regulations

D. The Anti-deficiency Act (ADA) – we concur with the finding.

Sincerely,

Julie Martin
Deputy Chief Financial Officer
Federal Law Enforcement Training Center

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