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## **Independent Auditors' Report**

Secretary, U.S. Department of Commerce  
Board of Directors, First Responder Network Authority:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the First Responder Network Authority (FirstNet), which comprise the balance sheet as of September 30, 2013, and the related statements of operations and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the First Responder Network Authority as of September 30, 2013, and the results of its operations and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information in Section 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### ***Other Reporting Required by Government Auditing Standards***

#### ***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered FirstNet's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FirstNet's internal control. Accordingly, we do not express an opinion on the effectiveness of FirstNet's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described below, we identified a deficiency in internal control that we consider to be a material weakness and other deficiencies in internal control that we consider to be a significant deficiency.

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 a 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. We consider the deficiency related to financial reporting, described in Exhibit I, to be a material weakness.

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. We consider the deficiencies related to information technology general controls over access and configuration management, described in Exhibit I, to be a significant deficiency.

#### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether FirstNet's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests



disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***FirstNet's Responses to Findings***

FirstNet's responses to the findings identified in our audit are described in Exhibit I. FirstNet's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

***Purpose of the Other Reporting Required by Government Auditing Standards***

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of FirstNet's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

July 24, 2014

### **Material Weakness: Financial Reporting Process Needs Improvement**

Since the creation of FirstNet in fiscal year 2012 and during fiscal year 2013, FirstNet had one fund code for FirstNet and National Telecommunications and Information Administration (NTIA) financial activities associated with the Public Safety Trust Fund, rather than separate distinct fund codes for each entity. While FirstNet management subsequently reviewed costs reflected in that code and manually identified costs attributable only to FirstNet, this practice created financial reporting challenges for management.

Specifically, management did not effectively design and implement a control over the review of the balances and transactions supporting the financial statements as evidenced by the following exceptions that we identified. We consider this deficiency to be a material weakness.

- **Accrued liabilities (part of accounts payable).** For 3 of 9 selected subsequent disbursement transactions, FirstNet had not accrued amounts related to goods and services rendered in fiscal year 2013 but not paid as of September 30, 2013 (year-end). NTIA expected to submit the invoices to their accounting service provider, the National Institute of Standards and Technology (NIST), prior to the year-end close and therefore did not include them as an estimated accrual. NTIA and FirstNet did not review payments made in September to determine whether invoices submitted for payment were paid before year-end, and if not, whether the estimated accrual was adjusted. An audit adjustment for \$1.2 million was proposed to record these accruals.
- **Other expenses and annual leave not recorded.** We identified 6 of 25 selected transactions for FirstNet activities that NTIA charged to the Public Safety Trust Fund using project codes that were not coded to FirstNet's general ledger. Thus, costs were understated in FirstNet's financial statements as of and for the year ended September 30, 2013. FirstNet should have reported such costs. We also noted that NTIA did not consistently apply how FirstNet project codes were assigned. Consequently, the expenses on the statement of operations were understated. An audit adjustment for \$526.9 thousand was proposed to record these costs.
- **Payroll expense and accruals.** For 2 of 14 payroll transactions selected amounting to \$4.6 thousand, FirstNet recognized NTIA employees' time that was charged to FirstNet project codes as accrued payroll. However, the accrued payroll costs associated with NTIA employees' time should have been recognized as accounts payable instead of accrued payroll.

Based on coordination with management in response to our request for further review of these balances, an adjustment for \$46.7 thousand was proposed to reclassify costs from accrued payroll to accounts payable.

For each of the matters described above, management corrected the accompanying September 30, 2013 financial statements. Management has indicated that they have implemented new processes in place to address these issues. Based on our additional coordination with management on the financial statements, it appears that management has been making improvements over review of their financial reporting process.

### **Recommendations**

We recommend that FirstNet effectively design and implement a control over management's review of the financial statements that would encompass:

- Enhance their accrual process to ensure that unpaid invoices that have been received are considered in relation to the year-end accrual estimate.
- Establish a standalone reporting structure and trial balance for FirstNet for better accumulation and reporting of FirstNet activity.
- Improve their review process to ensure that FirstNet transactions are properly assigned to FirstNet project codes (and/or separate sub-fund account, if established) that are used to accumulate and report FirstNet's financial activity.
- Establish an agreement for FirstNet to reimburse NTIA for its personnel services provided or to develop a method and timing for determining costs related to NTIA services each year.

### **Management's Response**

FirstNet management concurs and has initiated corrective actions to address all of the recommendations.

**Significant Deficiency: Service Provider's Information Technology Access and Configuration Management Need Improvement**

During the audit of the Department's consolidated financial statements, the auditors identified and reported deficiencies in the Independent Auditors' Report dated December 16, 2013 related to fiscal year 2013 general Information Technology (IT) controls over the Department's primary financial system. Some of those deficiencies impact FirstNet's financial transactions, and are described below, because FirstNet relies on its accounting service provider, NIST, and the Department's Commerce Business System Support Center. Collectively, we consider the deficiencies related to general IT controls described below to be a significant deficiency.

- **Access controls.** Specific areas for improvement related to access controls are: (1) managing user accounts to appropriately disable and recertify network, financial system, database and operating system accounts, (2) improving logical controls over financial application and database access, (3) strengthening password controls, (4) improving data center recertification procedures, (5) ensuring compliance with audit log review requirements, (6) preventing the use of shared database accounts and passwords, and (7) improving incident response reporting.
- **Configuration management.** Specific areas for improvement related to configuration management are: (1) restricting access of a certain code to authorized individuals, (2) monitoring the unauthorized modification of that code, and (3) addressing patch and configuration management vulnerabilities, (4) ensuring vulnerability scans are performed in accordance with Department policy.

**Recommendations**

Specific recommendations were provided in a separate limited distribution general IT controls report to the U.S. Department of Commerce, including NIST, as part of the Department's consolidated financial statement audit and were separately communicated to FirstNet for its coordination with NIST and the department.

**Management's Response**

FirstNet management concurs with the recommendations provided to the Department and NIST and supports the corrective action underway.