

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

## Management Letter for the U.S. Customs and Border Protection's FY 2013 Consolidated Financial Statements





**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

Washington, DC 20528 / [www.oig.dhs.gov](http://www.oig.dhs.gov)

APR 21 2014

MEMORANDUM FOR: Deborah Schilling  
Chief Financial Officer  
U.S. Customs and Border Protection

FROM: *for* Anne L. Richards *Mark Bell*  
Assistant Inspector General for Audits

SUBJECT: *Management Letter for the U.S. Customs and Border Protection's FY 2013 Consolidated Financial Statements*

Attached for your information is our final report, *Management Letter for the U.S. Customs and Border Protection's FY 2013 Consolidated Financial Statements*. This report contains comments and recommendations related to internal control deficiencies that were not required to be reported in the *Independent Auditors' Report on U.S. Customs and Border Protection's FY 2013 Financial Statements*. Internal control deficiencies which are considered significant deficiencies were reported, as required, in the *Independent Auditors' Report*, dated January 30, 2014, which was included in the *U.S. Customs and Border Protection's Fiscal Year 2013 Performance and Accountability Report*. We do not require management's response to the recommendations.

We contracted with the independent public accounting firm KPMG LLP (KPMG) to conduct the audit of U.S. Customs and Border Protection' (CBP) fiscal year (FY) 2013 consolidated financial statements. The contract required that KPMG perform its audit according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG is responsible for the attached management letter dated March 19, 2014, and the conclusions expressed in it.

Please call me with any questions, or your staff may contact Mark Bell, Deputy Assistant Inspector General for Audits, at (202) 254-4100.

Attachment



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

March 19, 2014

Chief Operating Officer  
Office of Inspector General  
U.S. Department of Homeland Security

Chief Financial Officer  
U.S. Customs and Border Protection

Ladies and Gentlemen:

In planning and performing our audit of the consolidated balance sheets of the U.S. Customs and Border Protection (CBP), a component of the U.S. Department of Homeland Security (DHS), and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statements of budgetary resources as of and for the years ended September 30, 2013 and 2012 (hereinafter, referred to as “consolidated financial statements”), in accordance with auditing standards generally accepted in the United States of America, we considered CBP’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 CBP’s internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and the Office of Management and Budget Bulletin No. 14-02, *Audit Requirements for Federal 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*. Accordingly, we do not express an opinion on the effectiveness of the CBP’s internal control.

During our audit we noted certain matters involving internal control and other operational matters that are 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 and are listed in the *Table of Financial Management Comments* of this letter.

In addition, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies, and communicated them in writing to management and those charged with governance in our *Independent Auditors’ Report* dated January 30, 2014. The disposition of each internal control deficiency identified during our fiscal year (FY) 2013 audit – as either reported in our *Independent Auditors’ Report*, or herein – is presented in appendix A.



Our findings related to information technology systems have been presented in a separate letter to the DHS Office of Inspector General and the CBP Chief Information Officer.

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 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* included internal control deficiencies identified during our audit, that individually, or in aggregate, represented a material weakness or significant deficiencies.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of CBP's organization gained during our work to make comments and suggestions that we hope will be useful to you.

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

CBP's management response to the deficiencies identified in our audit is presented in appendix B. CBP's management response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

The purpose of this letter is solely to describe comments and recommendations intended to improve internal control or result in other operating efficiencies. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

**KPMG LLP**

Department of Homeland Security  
U.S. Customs and Border Protection  
*Financial Management Comments*  
September 30, 2013

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**Financial Management Comment (FMC) 13-01: Automated Commercial System (ACS)  
Deficiency over the Accumulation of Accelerated Payments against a Drawback Bond (*Notice of Finding and Recommendation (NFR) No. CBP-13-07*)**

ACS does not properly account for bond sufficiency of claims that involve a continuous bond. Specifically, the automated control that prevents a claimant from exceeding the bond amount on file does not operate effectively. The control is designed to accumulate all open accelerated payments against a continuous bond to ensure that the bond is sufficient. However, ACS does not always properly track open accelerated payments against bonds. As a result, CBP may not have sufficient surety against overpayment of a drawback accelerated payment claim. Additionally, manual procedures are not in place to ensure the sufficiency of bonds.

ACS remains the system of record for drawback claims and bonds. In FY 2012, CBP began developing a script within ACS, known as “ACP,” that indicates the bond number, claimants listed on the bond, anniversary date of the bond, bond value, and a list of all drawback accelerated payments applied against the bond. However, the script has not been effectively implemented and released into production within ACS.

*Recommendation:*

We recommend that CBP release the revised script into production and issue an updated memo to the drawback centers announcing the reinstatement of the ACP script, with instructions on how to use the script.

**FMC 13-02: Weaknesses in the Recognition of Goods and Services Received as of March 31, 2013 (*NFR No. CBP-13-08*)**

During test work as of March 31, 2013, we reviewed a statistical sample of 49 operating expense type transactions and identified the following:

- In one transaction, the goods receipt amount was greater than the amount of the invoice. CBP recorded the goods receipt transaction when the service was received. However, CBP was subsequently granted a discount on the invoice but did not apply this discount against the original goods receipt, resulting in an overstatement of expenses by the discounted amount of \$268,000; and
- In seven transactions, goods or services received were not recorded in the proper accounting period. Contracting Officer Technical Representatives and accountants did not consistently enter goods receipt and service entry sheets timely into Systems, Applications, and Products (SAP), CBP’s financial reporting system.

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*Recommendations:*

We recommend that CBP continue to:

1. Develop a process to adjust outstanding service entry sheet amounts once an invoice has been posted; and
2. Continue to reinforce policies and procedures around the timely entry of goods receipts.

**FMC 13-03: Weaknesses in CBP's Review of Fund Balance with Treasury (NFR No. CBP-13-09)**

During our testing of the December fund balance with Treasury reconciliation, we noted an overstatement of \$1.483 billion between the amount reported in CBP's Treasury Information Executive Repository (TIER) trial balance as of December 31, 2012 and the amount reported by the Department of the Treasury for Treasury Account Fund Symbol (TAFS) 200310, *Duties on Imports*. The overstatement occurred because of an erroneous entry made during the reconciliation process between ACS and SAP, which ultimately impacts the Fund Balance with Treasury reported in TIER.

*Recommendation:*

We recommend that CBP implement procedures to ensure that the ACS reconciliation is reviewed by the Lead Staff Accountant or the Financial Statements Section Chief prior to the TIER submission.

**FMC 13-04: Deficiencies in the Public and Confidential Financial Disclosure Reporting Process (NFR No. CBP-13-10)**

During test work over a sample of 15 employees required to file an Office of Government Ethics (OGE) 278, Public Financial Disclosure Report, the following deficiency was identified:

- Two OGE-278 forms were not certified by the Reviewing Official within 60 days of the date the form was filed.

During test work over a sample of 25 employees required to file an OGE-450, Confidential Financial Disclosure Reports, the following deficiencies were identified:

- Two employees did not file the OGE-450 by the February 15 deadline and were not granted extensions; and
- One employee did not file the OGE-450 within 30 days of assuming a Confidential Filer position and was not granted an extension.

*Recommendations:*

We recommend that CBP:

1. Ensure the Final Reviewer of the OGE-278s manually adjust their "to do" list in the OGE-278 electronic filing system, Financial Disclosure Management , to display the earliest deadlines for review and certification at the top of the list;

2. Conduct a meeting with all OGE-450 point of contacts prior to the calendar year 2014 annual OGE-450 filing deadline to review the actions needed to ensure extension requests are handled in a consistent manner; and
3. Address the system issue with the OGE-450 electronic filing system, Human Resource Business Engine (HRBE), to ensure filers are given a correct due date.

**FMC 13-05: Deficiencies in the Performance Management Program (NFR No. CBP-13-12)**

During test work over a sample of 45 Non-Senior Executive Services (SES) employees (including both supervisory and non-supervisory employees) the following deficiencies were identified:

- One non-supervisory employee did not conduct either the initial or mid-year performance meeting within the required timeframe; and
- Four supervisory employees did not conduct either the initial or mid-year performance meeting within the required timeframe.

*Recommendations:*

We recommend that CBP:

1. Continue to closely monitor the progress and timeliness of CBP program offices in their completion of employee performance plan processes;
2. Establish more stringent accountability requirements of each program office; and
3. Continue to send messages on a regular basis to program offices concerning the initiation of performance plans, completion of mid-cycle performance reviews, and completion of final ratings of record.

**FMC 13-06: Weaknesses in Controls over the Bond Sufficiency Review Process (NFR No. CBP-13-17)**

During testwork performed over a sample of 125 single transaction bonds (STB) and 120 continuous bonds, we noted the following:

- Four STBs did not sufficiently cover the total value of duties, taxes, and fees of the related entry;
- For three STBs related to entries submitted via the Automated Broker Interface (ABI), CBP was unable to provide copies of the documentation to support the review of the bond; and
- One active continuous bond was insufficient to cover at least 10 percent of duties, taxes and fees paid by the importer, or broker acting as importer of record during the previous bond year. The insufficient bond did not appear in the Bond Sufficiency Reports and as a result the bond was not terminated until after the bond's anniversary date.

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In addition, we identified the following weakness over the bond sufficiency process:

- The Bond Sufficiency Reports generated by the Revenue Division are not designed to identify all insufficient bonds. Specifically, the Bond Sufficiency Reports do not factor in all duties, taxes, and fees paid by the importer during the previous bond year.

Prior to November 2012, the Bond Sufficiency Reports generated by the Revenue Division were designed to consider only 12 months of imports, allowing bonds that became insufficient in the final month of a bond year to automatically renew. CBP adjusted the parameters of the Bond Sufficiency Reports to consider 13 months of activity, to include any bonds that became insufficient in the final month of the bond year. However, the timeframe considered by the reports is a rolling 13 months and focuses on the most recent 13 months of import activity rather than the imports of the prior bond year. As a result, the reports do not consistently identify bonds that are insufficient.

*Recommendations:*

We recommend that CBP:

1. Continue to develop the Ebond module in the Automated Commercial Environment (ACE) for the electronic submission of all STBs. Ebond should allow for electronic reporting on STB sufficiency and will adhere to the document retention policy; and
2. Continue to generate Bond Sufficiency Reports for continuous bonds utilizing a 13-month date parameter.

**FMC 13-07: Weaknesses in the Trade Compliance Measurement (TCM) Program (NFR No. CBP-13-19)**

During testing performed at 11 ports of entry, a sample of 120 TCM reviews was examined. The following conditions related to the TCM program were identified:

- A TCM reviewer failed to detect the use of an incorrect conversion rate used to convert the value of the goods to U.S. dollars for one TCM review;
- Port personnel did not retain the associated supporting documentation to support the quantity or value of the import for one TCM review;
- Port personnel did not retain the associated supporting documentation to support the deductions to the invoiced value that appeared on the CBP Form 7501, *Entry Summary*, for one TCM review; and
- A TCM reviewer failed to detect a discrepancy between the value used to calculate the duties, taxes, and fees on the CBP Form 7501 and the value per the importer's invoice for one TCM review.

Additionally, during testing over a sample of 22 monthly TCM reports, 2 reports were not completed.

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*Recommendations:*

We recommend that CBP:

1. Correct each condition related to the deficiencies identified in the TCM reviews conducted at specific ports;
2. Implement controls to ensure that Port Directors follow the existing policies and procedures for supervisory oversight of the TCM program; and
3. Reinforce policies and procedures to all field offices and port locations.

**FMC 13-08: Implementation of Controls over Determining Classification of Leases (NFR No. CBP-13-20)**

CBP has not fully implemented processes and controls for the identification of lease agreements as capital or operating. CBP does not maintain clear, traceable documentation to evidence how it determines the classification of leases as capital or operating.

*Recommendation:*

We recommend that CBP update the lease directive to require the completion and retention of the personal property and the Office of Information Technology lease evaluation tool and establish related responsibilities.

**FMC 13-09: Improper Review and Untimely De-obligation of Undelivered Orders (UDOs) (NFR No. CBP-13-21)**

During testing of the March and September quarterly obligation analyses, we identified seven instances in which an obligation was marked as “invalid” but should have instead been marked “valid.”

During testing of CBP’s inactive obligations (i.e., those with no activity in the current fiscal year) as of May 31, 2013, we selected a statistical sample of 83 open obligations and identified 4 instances which the period of performance on the obligation had expired. CBP did not provide sufficient supporting documentation to support that the obligations were still valid for financial reporting purposes. These items were identified as either Status 1 or Status 2 in the March quarterly obligation analysis, signifying the obligations were valid.

*Recommendation:*

We recommend that the National Finance Center (NFC) continue to communicate with the Office of Procurement and Facilities Management and Engineering (FM&E) in addition to the other program offices to ensure timely and accurate reviews of UDO balances.

**FMC 13-10: Weaknesses in Controls over Customs-Trade Partnership against Terrorism (C-TPAT) Benefits (NFR No. CBP-13-23)**

During testing of a sample of 25 C-TPAT partners, benefits for 3 partners were not appropriately applied in ACS.

*Recommendations:*

We recommend that CBP:

1. C-TPAT Evaluations and Assessment Branch (EAB) forward instructions for corrective action to the assigned field offices and correct all discrepant sample accounts identified during the audit;
2. Send a message to all field offices reminding them that it is their responsibility to ensure that ACS is updated with current benefit level, in accordance with the Benefits Standard Operating Procedures and ACS Benefits Webinar training; and
3. Implement an ACS audit of corresponding tier status with the C-TPAT portal to be conducted monthly or quarterly. Any discrepancies should be forwarded to the assigned field office for correction. All corrective actions, once communicated as completed, should be verified in ACS by the EAB. Formal reporting of C-TPAT/ACS audit results/corrective actions should be forwarded to the C-TPAT Program Director for review.

**FMC 13-11: Deficiencies in the Seized Inventory Process (NFR No. CBP-13-24)**

During physical inventory observation procedures conducted at nine seized property vaults, the following deficiencies were identified:

- On two different dates in one location, the log book evidenced that only one person entered the vault for a period of time; and
- One instance where the amount listed on the Customs Form 6051, *Custody Receipt for Seized Property and Evidence*, did not agree with the amount listed in the Seized Asset and Case Tracking System (SEACATS) inventory, resulting in a .06 kilogram overstatement.

*Recommendation:*

We recommend that CBP issue a memorandum to the Directors of Field Operations and Ports to inform them of the audit findings and remind them of the proper CBP policies and procedures that guide their activities around the custody, management, and accountability of seized property. Additionally, send a message to the field reminding them of the vault access requirements and updating SEACATS within the required timeframes.

**FMC 13-12: Deficiencies in the Control Environment Surrounding the use of Reimbursable Work Authorizations (RWAs) (NFR No. CBP-13-25)**

CBP personnel entered into RWA agreements with U.S. Army Corps of Engineers (USACE) using a procurement process that is outside of CBP's normal procurement function. In doing so, CBP bypassed internal controls that require the use of a warranted contracting officer.

*Recommendations:*

We recommend that CBP:

1. Continue to implement the changes in the DHS Interagency Acquisitions Guide and DHS Acquisition Alert 13-19, which outlines DHS policy relating to intra-governmental transactions, including interagency acquisitions, intra-agency acquisitions, and intra-governmental financial transactions that do not result in a contract or order; and
2. Revise CBP Directive 5320-028D, which defines the appropriate uses of an interagency agreement (IAA). Office of Administration (OA) FM&E issued a memorandum to its personnel in September 2013 to reinforce appropriate IAA usage and the accompanying documentation required to support the OA Procurement Directorate's issuance of an IAA.

**FMC 13-13: Deficiencies in Tracking Leases (NFR No. CBP-13-27)**

During our testing of CBP's lease information as of September 30, 2013, we selected a sample of 25 lease payments and identified the following:

- Nine instances, three involving personal property leases and six involving real property leases, in which a payment was made towards a cancellable lease agreement that did not appear in CBP's listing of leases as of September 30, 2013;
- Two instances, one personal property and one real property, in which a lease was misclassified as cancellable when it should have been non-cancellable.
- One instance in which the monthly lease payment was incorrect. CBP divided the monthly payment by twelve, rather than dividing the annual lease payment by twelve.

*Recommendations:*

We recommend that CBP:

1. Make the required modifications to the Office of Administration-Asset and Administrative Management Division-Personal Property Program Management Office personal property lease certification control and consider additional controls to further enhance effective personal property lease tracking; and
2. Continue to enforce and train on the existing data management policy established by FM&E, which clearly defines FM&E Program Management Office responsibilities in the management of CBP real property lease data.

**FMC 13-14: Retrospective Review over Estimates (NFR No. CBP-13-28)**

During audit testing, we determined that CBP does not perform a retrospective review to analyze variances between estimated amounts recorded as accruals and actual amounts incurred, once known. We noted a lack of retrospective review of estimates in the following areas:

- Refund & Drawback Payable (based on subsequent disbursement testing),
- Anti-Dumping/Countervailing Duties Payable, and
- Funded Payroll Accrual.

*Recommendation:*

We recommend that CBP develop an annual assessment of the Refund & Drawback Payable (based on subsequent disbursement testing), Anti-Dumping/Countervailing Duties Payable, and Funded Payroll Accrual to validate the methodology used.

**FMC 13-15: Deficiencies in the Inventory and Related Property Process (NFR No. CBP-13-29)**

During testing at five Office of Air and Marine (OAM) sites performing an annual inventory, the following discrepancies were identified:

- At one location, one of the items selected was recorded as a Type 1 inventory at a value of \$38,750. Type 1 inventory is tracked as inventory held for use. However, it should have been classified as Type 6 inventory, which are tools and equipment used in the facility and are tracked as Property, Plant & Equipment or expensed, depending on their value. This resulted in an overstatement of Inventory and Related Property and an understatement of operating expense in the amount of \$38,750.
- At one location, there were six items with a location of “L-3 CANADA” and a description of “TWT/TWT Power Supply” with an overall value of \$1,362,066. Upon inquiry of the site personnel, it was determined that this inventory was purchased and located at the L-3 site in Canada and has remained there since acquisition, rather than at the location that reported it on the count sheet. The items were inventoried by L-3 Canada personnel and therefore do not result in a misstatement to the inventory held for use balance. However, the location code for the items should have been updated to reflect that they were located at the L-3 Canada site.
- At one location, there was a lack of segregation of duties. The Logistics Supervisor conducted the inventory count and reviewed the count for discrepancies.

*Recommendation:*

We recommend that CBP monitor contractor’s performance regarding compliance with property accountability. Property that is located at the sub-contractors facility will be inventoried yearly and OAM will review the results to ensure the correct property location is entered into the Computerized Aircraft Reporting and Material Control System (CARMAC).

**FMC 13-16: Deficiencies in the Review of Adjusting Journal Entries (AJEs) (NFR No. CBP-13-30)**

During our testing of AJEs at year-end, we noted that CBP incorrectly used the FY 2012 cost factors instead of the FY 2013 cost factors in the imputed pension cost calculations for the fourth quarter AJE.

*Recommendation:*

We recommend that CBP create a checklist that ensures the proper cost factors are used in the calculation of the Office of Personnel Management pension benefits.

**FMC 13-17: Insufficient Review of Apportionment Categories (NFR No. CBP-13-31)**

During our review of the June 30, 2013 financial statements, we noted that CBP determined that certain funds were misclassified initially between Category A and Category B. As a result, CBP reclassified these balances for reimbursable obligations between Category A and Category B in the current year.

*Recommendation:*

We recommend that the CBP budget analyst responsible for system updates related to the categorization of funding include the budget analyst responsible for the Standard Form (SF) 132, *Apportionment and Reapportionment Schedule*, requests via email correspondence between the Office of Budget and NFC for new accounts. This corrective action should institute a formal review control in place to correctly determine the nature of the funding.

**FMC 13-18: Consideration for Deferred Revenue related to Puerto Rico (NFR No. CBP-13-32)**

As of September 30, 2013, CBP recognized \$45.1 million in earned revenue related to Puerto Rico that it had not yet earned.

CBP recognizes duties collected on behalf of Puerto Rico as earned revenue after reclassifying amounts transferred to Puerto Rico and refunds paid on Puerto Rico's behalf to custodial revenue. Funds retained and therefore recognized as earned revenue first cover expenses, and then any un-liquidated obligations. Any amounts retained in excess of expenses incurred should be recorded as deferred revenue.

*Recommendation:*

We recommend that CBP implement a procedure for proper recognition of deferred revenue.

**Appendix A**

U.S. Customs and Border Protection  
 Crosswalk – Financial Management Comments to Active NFRs  
 September 30, 2013

FY 13 NFR No.	Description	Disposition*			
		Independent Auditors' Report			FMC
		Material Weakness	Significant Deficiency	Non-Compliance	Number
CBP-13-01	<i>Number not used</i>	<i>Not applicable</i>			
CBP-13-02	Weaknesses in CBP's Process related to Asset Additions as of April 30, 2013		B		
CBP-13-03	Weaknesses in CBP's Process related to Asset Disposals as of April 30, 2013		B		
CBP-13-03b	Weaknesses in CBP's Process related to Asset Disposals as of September 30, 2013		B		
CBP-13-04	Improper Settlement of Assets, including Untimely Capitalization of Assets from Construction in Progress (CIP) as of April 30, 2013		B		
CBP-13-04b	Improper Review of CIP Projects as of September 30, 2013		B		
CBP-13-05	Detection of Excessive Drawback Claims	A			
CBP-13-06	Insufficient Retention Period for Documents that Support Drawback Claims	A			
CBP-13-07	Automated Commercial System (ACS) Deficiency over the Accumulation of Accelerated Payments against a Drawback Bond				13-01
CBP-13-08	Weaknesses in the Recognition of Goods and Services received as of March 31, 2013				13-02
CBP-13-09	Weaknesses in CBP's Review of Fund Balance with Treasury				13-03
CBP-13-10	Deficiencies in the Public and Confidential Financial Disclosure Reporting Process				13-04
CBP-13-11	Deficiencies in the Completeness and Existence of Property, Plant, and Equipment (PP&E)		B		
CBP-13-12	Deficiencies in the Performance Management Program				13-05

**Appendix A**

U.S. Customs and Border Protection  
 Crosswalk – Financial Management Comments to Active NFRs  
 September 30, 2013

FY 13 NFR No.	Description	Disposition*			
		Independent Auditors' Report			FMC
		Material Weakness	Significant Deficiency	Non-Compliance	Number
CBP-13-13	Weaknesses Identified in the Bonded Warehouse and Foreign Trade Zone Processes and Procedures		C		
CBP-13-14	<i>Number not used</i>	<i>Not applicable</i>			
CBP-13-15	Deficiencies in the In-Bond Process		C		
CBP-13-16	Weaknesses in the Review of Entry Edit/Exception Reports		C		
CBP-13-17	Weaknesses in Controls Over the Bond Sufficiency Review Process				13-06
CBP-13-18	ACS Limitations – Review of Prior Drawback Claims and Selectivity for Underlying Consumption Entry Summaries	A			
CBP-13-19	Weaknesses in the Trade Compliance Measurement (TCM) Program				13-07
CBP-13-20	Implementation of Controls over Determining Classification of Leases				13-08
CBP-13-21	Improper Review of Untimely De-obligation of Undelivered Orders (UDOs)				13-09
CBP-13-22	Federal Financial Management Improvement Act (FFMIA)			Compliance Determined at Department Level	
CBP-13-23	Weaknesses in Controls over Customs-Trade Partnership against Terrorism (C-TPAT) Benefits				13-10
CBP-13-24	Deficiencies in the Seized Inventory Process				13-11
CBP-13-25	Deficiencies in the Control Environment Surrounding Use of Reimbursable Work Authorizations (RWAs)				13-12
CBP-13-26	<i>Number not used</i>	<i>Not applicable</i>			
CBP-13-27	Deficiencies in Tracking Leases				13-13

**Appendix A**

U.S. Customs and Border Protection  
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FY 13 NFR No.	Description	Disposition*			
		Independent Auditors' Report			FMC
		Material Weakness	Significant Deficiency	Non-Compliance	Number
CBP-13-28	Retrospective Review over Estimates				13-14
CBP-13-29	Deficiencies in the Inventory and Related Property Process				13-15
CBP-13-30	Deficiencies in the Review of Adjusting Journal Entries (AJEs)				13-16
CBP-13-31	Insufficient Review of Apportionment Categories				13-17
CBP-13-32	Consideration for Deferred Revenue related to Puerto Rico				13-18

\*Disposition Legend:

FMC          Financial Management Comment

Cross-reference to the applicable sections of the Independent Auditors' Report:

- A          Drawback of Duties, Taxes, and Fees
- B          Property, Plant, and Equipment
- C          Entry Process

U.S. Customs and Border Protection  
Management Response to the Draft Management Letter  
September 30, 2013

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U.S. Department of Homeland Security  
Washington, DC 20229



U.S. Customs and  
Border Protection

MAR 07 2014

MEMORANDUM FOR: Mark Bell  
Acting Assistant Inspector General for Audits  
Department of Homeland Security

FROM: Deborah J. Schilling  
Chief Financial Officer

SUBJECT: Management Response to Management Letter Report on U.S.  
Customs and Border Protection's Fiscal Year 2013 Consolidated  
Financial Statements

On behalf of U.S. Customs and Border Protection (CBP), I am responding to the report entitled "Management Letter for U.S. Customs and Border Protection's Fiscal Year 2013 Consolidated Financial Statements."

We have reviewed and concur with all weaknesses contained in the report. CBP will continue to work to resolve all auditor identified weaknesses.

Our Agency appreciates the opportunity to review this year's report and looks forward to continuing our professional auditing relationship with your office.

If you have any questions or would like additional information, please contact me at (202) 344-2300, or a member of your staff may contact Ms. Jaye M. Williams, Executive Director, Financial Operations Directorate, at (202) 344-2364.

A handwritten signature in blue ink that reads "Deborah J. Schilling".

Deborah J. Schilling



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

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