

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

## **Independent Auditors' Report on U.S. Customs and Border Protection's FY 2013 Financial Statement**





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

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

MAR 27 2014

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

FROM: Anne L. Richards   
Assistant Inspector General for Audits

SUBJECT: *Independent Auditors' Report on U.S. Customs and Border Protection's FY 2013 Financial Statements*

Attached for your action is our final report, *Independent Auditors' Report on U.S. Customs and Border Protection's FY 2013 Financial Statements*. We have incorporated the formal comments from U.S. Customs and Border Protection (CBP) in the final report.

The report presents the results of CBP's consolidated financial statement audits for fiscal years (FY) 2013 and 2012. We contracted with the independent public accounting firm KPMG LLP to perform the audits. KPMG LLP concluded that CBP's consolidated financial statements as of and for the years ended September 30, 2013, and September 30, 2012, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

The FY 2013 independent auditors' report also contains observations and 13 recommendations related to internal control weaknesses that were considered significant deficiencies and were required to be reported in the financial statement audit report. The four significant deficiencies in internal controls are presented below; the first significant deficiency is considered to be a material weakness. Your office concurred with the one material weakness and three other significant deficiencies presented below:

**Significant Deficiencies in Internal Control**

- A. Drawback of Duties, Taxes, and Fees
- B. Property, Plant, and Equipment
- C. Entry Process
  - 1. In-Bond Program
  - 2. Bonded Warehouse and Foreign Trade Zones
  - 3. Entry Reports
- D. Information Technology



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

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KPMG LLP is responsible for the attached independent auditors' report dated January 30, 2014, and the conclusions expressed in the report. We do not express opinions on financial statements or internal control or conclusions on compliance with laws and regulations.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. In addition, we will post a copy of the report on our website for public dissemination.

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

## Independent Auditors' Report

Inspector General  
U.S. Department of Homeland Security:

Commissioner  
U.S. Customs and Border Protection:

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Customs and Border Protection (CBP), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements 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 Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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



### ***Opinion on the Financial Statements***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CBP as of September 30, 2013 and 2012, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

### ***Emphasis of Matter***

As discussed in Notes 19 and 20 to the consolidated financial statements, CBP changed its presentation for reporting the consolidated statement of net cost in order to better align its costs with its strategic objectives. The consolidated statement of net cost for fiscal year 2012 has not been restated in the fiscal year 2013 format since the new programs are not applicable to fiscal year 2012 reporting. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information in the Acting Commissioner's Message, Performance Section, Message from the Chief Financial Officer, Other Information, and Acronyms as reflected in CBP's *Fiscal Year 2013 Performance and Accountability Report* is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated 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 consolidated financial statements, we considered CBP'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of CBP's internal control. Accordingly, we do not express an opinion on the effectiveness of CBP'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 in the accompanying exhibits, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

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 deficiencies 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 described in Exhibit II to be significant deficiencies.

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

As part of obtaining reasonable assurance about whether CBP's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. 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 of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

### ***CBP's Responses to Findings***

CBP's responses to the findings identified in our audit are described in Management's Response to the Independent Auditors' Report. CBP's responses were not subjected to the auditing procedures applied in the audit of the consolidated 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 CBP's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

Washington, D.C.  
January 30, 2014

**Material Weakness**

**A. Drawback of Duties, Taxes, and Fees**

**Background:**

U.S. Customs and Border Protection (CBP) performs an important revenue collection function for the U.S. Department of the Treasury. In fiscal year (FY) 2013, CBP collected approximately \$36.6 billion in import duties, taxes, and fees on merchandise arriving in the U.S. from foreign countries. Receipts of import duties and related refunds are presented in the statement of custodial activity in CBP's consolidated financial statements.

Drawback is a remittance, in whole or in part, of duties, taxes, or fees previously paid by an importer. Drawback typically occurs when the imported goods, on which duties, taxes, or fees have been previously paid, are subsequently exported from the United States or destroyed prior to entering the commerce of the United States. Depending on the type of drawback claim, the claimant has up to eight years from the date of importation to file for drawback.

The conditions cited below have existed for several years; however, CBP's planned remediation for these conditions is dependent upon funding for IT systems modernization and new system implementation. In FY 2013, CBP continued its efforts to review and reassess the drawback process as a whole.

**Conditions:**

The following weaknesses in internal control over drawback of duties, taxes, and fees paid by the importer were identified:

- CBP is unable to prevent, or detect and correct excessive drawback claims against an entry summary due to the inherent limitations of CBP's current entry/collections system and lack of controls therein. An entry summary may comprise numerous line items; however, the system does not have the capability to compare, verify, and track essential information on drawback claims to the related underlying consumption entry sheets and their individual line items, or export documentation upon which the drawback claim is based.
- The drawback module within CBP's current entry/collections system provides information at the entry summary level to prevent the total amount of a drawback claim against a given import entry from exceeding 100 percent of the total amount of duties, taxes, and fees collected. By law, the amount paid for drawback claims against a given import entry are not to exceed 99 percent of the duties, taxes, and fees collected at the individual line item level and the entry summary level. In addition, export information is not linked to the drawback module and therefore, electronic comparisons of export data cannot be performed within the system to ensure that overpayments of drawback claims are not made.
- Drawback review policies do not require Drawback Specialists to review prior drawback claims against a selected import entry to determine whether an excessive amount has been claimed against the underlying consumption entry sheets. Due to system limitations, this review of prior drawback claims against a consumption entry sheet cannot be automated. CBP utilizes a validity control review process to select and trace the highest dollar invoice item on the highest dollar consumption entry sheet for claims over \$50,000; however, this approach is not statistical. In addition, drawback review policy and procedures allow Drawback Specialists, with supervisory approval, to judgmentally decrease the number of consumption entry sheets reviewed for certain claims. Further,

CBP's sampling methodology for selecting underlying consumption entry sheets is not considered statistically valid for projecting errors.

- The statutory period for document retention of a drawback claim is three years from the date of payment; however, there are several situations that could extend the life of the drawback claim well beyond three years. Therefore, documentation retention periods are not adequate to ensure that support for drawback transactions is maintained for the full lifecycle of the claim.

**Cause/Effect:**

Due to system limitations, the drawback process is mostly manual. This places an additional burden on limited resources. CBP uses a compensating manual process to sample, verify, and match consumption entry and export documentation to drawback claims from importers. However, CBP's sampling methodology is not considered statistically valid for projecting errors over the population of drawback claims.

There is a high inherent risk of fraudulent claims or claims made in error, which increases the risk for erroneous payments. Since all, or a statistically valid sample, of drawback claims are not reviewed against the corresponding import entry, it is possible that drawback claims, in aggregate, could exceed the amount of duty and tax collected on the underlying consumption entry sheet at the individual line item level.

The length of the drawback claim lifecycle often extends beyond the statutorily mandated document retention period.

**Criteria:**

Presented in *Index of Financial Reporting and Internal Control Criteria* following Exhibit II.

**Recommendations:**

We recommend that CBP:

1. Continue to pursue alternative compensating controls that may ultimately identify the potential revenue loss exposure to CBP. These alternative internal controls over drawback claims may enhance CBP's ability to compare, verify, and track information on drawback claims to the corresponding underlying consumption entry sheet and export documentation, and identify duplicate or excessive drawback claims;
2. Develop and implement automated controls to prevent overpayment of a drawback claim; and
3. Continue to refine the drawback review process so that valid results and meaningful analysis of data can be provided and utilized by management.

**Other Significant Deficiencies**

**B. Property, Plant, and Equipment**

**Background:**

U.S. Customs and Border Protection (CBP) acquired new equipment, facilities, and other assets through purchase and construction in FY 2013. The increase in assets is primarily due to construction of new facilities and the purchase of inspection equipment at ports of entry.

**Condition:**

CBP has invested resources to address weaknesses in its processes for tracking and reporting property, plant, and equipment (PP&E) balances. CBP made improvements in its internal control over PP&E in FY 2013; however, several weaknesses remained. Specifically, CBP:

- Did not timely and accurately record certain construction-in-progress (CIP) settlement transactions, resulting in misclassification of assets between CIP and “in-use”.
- Recorded certain asset additions prior to the completion of a construction project, without proper supporting documentation.
- Did not detect and correct for errors when certain assets recorded in the general ledger no longer existed.
- Did not timely record certain asset retirements. Additionally, some assets were retired without approval and/or sufficient supporting documentation.

**Criteria:**

Presented in *Index of Financial Reporting and Internal Control Criteria* following Exhibit II.

**Cause/Effect:**

CBP personnel did not consistently adhere to established policies and procedures for recording PP&E costs, and did not have sufficient oversight, including monitoring controls over ongoing CIP projects, to ensure that all PP&E transactions were recorded timely and accurately in the general ledger.

CBP’s PP&E and related depreciation balances may be misstated at certain points during the fiscal year due to untimely or inaccurate PP&E entries.

**Recommendations:**

We recommend that CBP:

1. Reinforce existing policies and procedures for recording asset additions, retirements, and settlements; and
2. Continue to enhance supervisory review and monitoring controls to review PP&E transactions in a timely manner.

## **C. Entry Process**

### **1. In-Bond Program**

#### **Background:**

An in-bond entry allows for the movement of cargo through the United States without payment of duty or appraisal prior to entry into either domestic commerce or exportation to a foreign country. The cargo may enter U.S. commerce after it arrives at the destination port and an entry is filed, may be entered into a bonded warehouse for storage, or may be admitted into a Foreign Trade Zone.

To assist with in-bond oversight functions, CBP implemented the In-Bond Compliance Module in September 2012. CBP conducts audits and examinations to assist in protecting custodial revenues related to in-bond entries of goods. CBP performs audits by reviewing entry documents or documents that show proof of subsequent export to ensure proper accounting of all merchandise has occurred. Examinations are conducted by physical inspection of the merchandise to ensure the commodity matches the entry documentation. At the end of each audit or examination, the findings, conclusions, and corrective actions recommended or taken are documented. These results assist CBP in assessing the risk of bonded carriers.

#### **Condition:**

The following weaknesses in internal control over compliance exams and audits were identified:

- Guidance was insufficient for port personnel to implement the new in-bond compliance program. While CBP established a policy that required port personnel to perform examinations as they are assigned, CBP did not establish specific requirements for how often port personnel should query the compliance module for required examinations.
- CBP personnel lacked sufficient training and understanding of the functionality of the new in-bond compliance module.
- The in-bond compliance module reports did not track the number of overdue audits and examinations. The module did not have sufficient capability to generate reports that displayed in-bonds selected for audit and/or examination.

#### **Criteria:**

Presented in *Index of Financial Reporting and Internal Control Criteria* following Exhibit II.

#### **Cause/Effect:**

CBP did not establish and distribute clear guidance, policies, and procedures for the new in-bond compliance module. Also, personnel were not adequately trained on the new requirements and use of the system tools. Finally, the system lacked sufficient reporting capability to support the program.

The in-bond monitoring process supports CBP's efforts to protect custodial revenues. The inability to effectively monitor the in-bond process could result in missed opportunities for CBP to assess fines and penalties and collect the associated revenues.

**Recommendations:**

We recommend that CBP:

1. Identify and implement a robust audit process for ensuring in-bond shipments reach the intended destination;
2. Continue to enhance the in-bond compliance module including the related systems tools; and
3. Provide additional training and guidance to personnel for the in-bond process

**2. Bonded Warehouse and Foreign Trade Zones**

**Background:**

Bonded Warehouses (BWs) are facilities under CBP's supervision used to store merchandise that has not made entry into U.S. commerce. The merchandise stored in such warehouses is secured by the bond on the warehouse. Merchandise is entered into the BW by the submission of the CBP Form 7501, *Entry Summary with Continuation Sheets*, and can be stored in the bonded facility for up to five years.

Foreign Trade Zones (FTZs) are secure areas under CBP supervision that are legally considered to be outside the commerce of the United States. Authority for establishing these facilities is granted by the Foreign Trade Zones Board under the Foreign Trade Zones Act of 1934, as amended (19 U.S.C. 81a through 81u). Foreign and domestic merchandise may be admitted into zones for operations not otherwise prohibited by law, including storage, exhibition, assembly, manufacturing, and processing. Merchandise is admitted into a FTZ using CBP Form 214, *Application for Foreign-Trade Zone Admission and/or Status Designation*.

The monitoring of BW and FTZ operations is based on the performance of risk assessments and compliance reviews by CBP officers in the field. CBP conducts a quarterly survey of ports that have BWs and FTZs, the results of which are submitted to CBP Headquarters for compilation and analysis. Headquarters uses the survey results to assist in CBP's determination on the effectiveness of the BW and FTZ programs. CBP developed national databases in order to maintain a centralized repository of profiles of bonded facilities including BW and FTZ sites.

**Condition:**

The following weaknesses in internal control over the BW and FTZ programs were identified:

- The national databases of bonded facilities are currently not designed to document (1) the assessed risk of each BW or FTZ, (2) scheduled compliance reviews, or (3) the results of compliance reviews.
- CBP has not established requirements to ensure that all compliance reviews are performed; and
- For several FTZs and BWs, CBP was unable to provide evidence that risk assessments were performed at the time of the FY 2013 compliance review of the facilities.

**Criteria:**

Presented in *Index of Financial Reporting and Internal Control Criteria* following Exhibit II.

## EXHIBIT II

### **Cause/Effect:**

CBP personnel did not consistently adhere to BW and FTZ policies and procedures. CBP has not established updated, formal guidance related to monitoring of the BW and FTZ programs, including procedures to assess whether all necessary compliance reviews are scheduled and completed.

There is a risk that proper monitoring of BWs or FTZs will not occur if risk assessments and compliance reviews are not conducted within the guidelines.

### **Recommendations:**

We recommend that CBP:

1. Continue to monitor the compliance review results and establish updated, formal guidance for monitoring and benchmarking performance;
2. Continue to enhance procedures to determine whether all BW and FTZ facilities are subject to review and monitoring processes; and
3. Develop additional training and information-sharing processes as needed.

### **3. Entry Reports**

#### **Background:**

CBP personnel process and review certain entry edit/exception reports, including the following:

- The *B06, Weekly List of Rejected/Cancelled Entries Report*, lists entries that were either cancelled or placed in rejected status.
- The *B07, Weekly List of Unpaid/Rejected Entries*, lists entries in rejected status and entries for which duty, taxes, and fees have not been collected, or if collected, not properly posted to the entry.
- The *B08, Weekly Late Report: Entry Releases with No Follow-Up Summaries*, is a cumulative listing of entry releases with no processing errors or follow-up entry summary on file.
- The *B84, Weekly Budget Clearing Account (BCA) and Suspense Item Report*, is a cumulative listing of collections that are an intentional posting to a suspense account or collections in an error condition.
- The *S21, Cargo Selectivity Weekly Selectivity Delete Report*, lists all entries that have been deleted by port personnel during the previous week.
- The *Q07, Monthly Unreported Quota Report*, is a cumulative listing of quota entries that have not been processed through the quota module or remain in quota rejected status where processing was attempted.

#### **Condition:**

CBP personnel did not consistently complete and review reports in accordance with the requirements of CBP directives. Specifically, a lack of segregation of duties was identified over the review process for certain reports, some reports were untimely generated and reviewed, while other reports were not reviewed.

## EXHIBIT II

### **Criteria:**

Presented in *Index of Financial Reporting and Internal Control Criteria* following Exhibit II.

### **Cause/Effect:**

CBP port personnel did not consistently follow the policies in place to ensure entry edit/exception reports were generated and reviewed in a timely manner. CBP does not have adequate controls in place to enforce the segregation of duties over the processing, review, and verification of entry edit/exception reports at the ports.

Non-performance or inadequate processing, review and verification of entry edit/exception reports may cause CBP to fail to collect all revenue to which it is entitled. Specifically, there is a risk that entries may be improperly cancelled, deleted, or that the related duties would go unpaid or remain in suspense accounts.

### **Recommendation:**

We recommend that CBP update its policies and procedures to establish the timeframes in which reports must be generated and reviewed. Additionally, CBP should continue to monitor the entry edit/exception reports through the Self Inspection Process and enforce adherence to policy.

## **D. Information Technology**

### **Background:**

Controls over information technology (IT) and related financial systems are essential elements of financial reporting integrity. Effective IT controls in an IT financial systems environment can be defined in five key general control areas (security management, access control, configuration management, segregation of duties, and contingency planning) and four key application control areas (application level general controls, business process controls, interface controls, and data management system controls). In addition to reliable general and application controls, financial management system functionality is important to program monitoring, increasing accountability of financial and program managers, providing better information for decision-making, and increasing the efficiency and effectiveness of services provided by the Federal government.

### **Condition:**

During FY 2013, CBP took corrective actions to address and close twenty-three prior year IT control deficiencies. For example, CBP made improvements to various security agreements for connections with external systems, patching software products in a timely manner, system accreditation documentation, and controlling remote access.

However, during FY 2013, new and continuing general IT control weaknesses were identified that could potentially impact CBP's financial data. The most significant weaknesses from a financial statement audit perspective related to controls over system functionality, access, segregation of duties, and configuration management. Collectively, the general IT control weaknesses limit CBP's ability to support assertions that critical financial and operational data confidentiality, integrity, and availability are maintained. CBP's current system of record for entries imported into the U.S. does not fully support CBP's custodial revenue and drawback processes.

Due to the sensitive nature of these issues, we will issue a separate, restricted distribution report that discusses the general IT control and functionality deficiencies in greater detail.

## **EXHIBIT II**

### **Criteria:**

Presented in *Index of Financial Reporting and Internal Control Criteria* behind Exhibit II.

### **Cause/Effect:**

Funding for IT development and implementation, as well as for IT support staff has been reduced in recent years. This has prolonged implementation of systems that would replace or enhance current systems, and has had an impact on providing IT support resources. In addition, because of the presence of IT control and financial system functionality weaknesses, there is additional pressure on the manual, mitigating processes and controls.

### **Recommendation:**

We recommend that CBP improve the general and application controls over its financial systems to ensure adequate security, protection, and functionality of the information systems.

**Index of Financial Reporting and Internal Control Criteria**  
*(Listed Alphabetically by Criteria Source)*

| Criteria  | Reference   | Report Exhibit |
|---|---|----------------|
| 2013 Code of Federal Regulations (CFR)  | Title 19 CFR § 19.4 (a) and 19 CFR §146.3 (a)                   | II-C-2         |
|   | Title 19 Section 18.2(d), Section 18.6 (b), and Section 18.8(b) | II-C-1         |
|   | Title 19, Volume 1, Section 111.23                              | I-A            |
|   | Title 19, Volume 1, Section 111.25                              |                |
|   | Title 19, Volume 2, Part 191.38                                 |                |
|   | Title 19, Volume 2, Section 163.4 (a)-(b)                       |                |
|   | Title 19, Volume 2, Section 191.15                              |                |
| The Federal Manager’s Financial Integrity Act (FMFIA) of 1982   | Section 2   | I-A, II-B      |
| Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 6, <i>Accounting for Property, Plant, and Equipment</i> | Chapter 2, Paragraph 34   | II-B           |
|   | Chapter 2, Paragraphs 38-39                                     | II-B           |
| Office of Management and Budget (OMB) Circular No. A-123, <i>Management’s Responsibility for Internal Control</i>   | Section I   | II-C-3         |
|   | Section I, paragraph 2; Section IV, paragraph 1                 | I-A            |
|   | Section II. Standards   | I-A, II-B      |
| GAO <i>Standards for Internal Control in the Federal Government</i> (Standards)   | Segregation of Duties   | II-C-3         |



**U.S. Customs and  
Border Protection**

JAN 28 2014

MEMORANDUM FOR: Mark Bell  
Acting, Assistant Inspector General for Audits  
U.S. Department of Homeland Security

FROM: Deborah J. Schilling  
Chief Financial Officer  
U.S. Customs and Border Protection

SUBJECT: Management Response – Draft Independent Auditor’s Report on  
CBP’s FY 2013 Consolidated Financial Statements

On behalf of U.S. Customs and Border Protection (CBP), I am responding to the Independent Auditor’s Report on CBP’s Fiscal Year (FY) 2013 Consolidated Financial Statements, which will be included in our FY 2013 Performance and Accountability Report.

I accept the independent public accounting firm’s (KPMG LLP), *unmodified* opinion on CBP’s FY 2013 Consolidated Financial Statements, which concluded that CBP’s consolidated financial statements are fairly presented in all material respects in conformity with generally accepted accounting principles.

CBP has reviewed and concurs with the one material weakness and the three significant deficiencies identified in the report. CBP’s strategy to correct these conditions is being drafted and will be provided to the Office of the Chief Financial Officer, U.S. Department of Homeland Security. CBP will continue to address the auditor identified weaknesses.

CBP appreciates the opportunity to review this year’s audit 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, at (202) 344-2364.

A handwritten signature in cursive script that reads "Deborah J. Schilling".

Deborah J. Schilling



## **Appendix A**

### **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 Privacy Officer  
Chief Financial Officer  
Chief Information Officer

#### **U.S. Customs and Border Protection**

Commissioner  
Chief Financial Officer  
Chief Information Officer

#### **Office of Management and Budget**

Chief, Homeland Security Branch  
DHS OIG Budget Examiner

#### **Congress**

Congressional Oversight and Appropriations Committees, as appropriate

## ADDITIONAL INFORMATION

To view this and any of our other reports, please visit our website at: [www.oig.dhs.gov](http://www.oig.dhs.gov).

For further information or questions, please contact Office of Inspector General (OIG) Office of Public Affairs at: [DHS-OIG.OfficePublicAffairs@oig.dhs.gov](mailto:DHS-OIG.OfficePublicAffairs@oig.dhs.gov), or follow us on Twitter at: [@dhsoig](https://twitter.com/dhsoig).”

## OIG HOTLINE

To expedite the reporting of alleged fraud, waste, abuse or mismanagement, or any other kinds of criminal or noncriminal misconduct relative to Department of Homeland Security (DHS) programs and operations, please visit our website at [www.oig.dhs.gov](http://www.oig.dhs.gov) and click on the red tab titled "Hotline" to report. You will be directed to complete and submit an automated DHS OIG Investigative Referral Submission Form. Submission through our website ensures that your complaint will be promptly received and reviewed by DHS OIG.

Should you be unable to access our website, you may submit your complaint in writing to:

Department of Homeland Security  
Office of Inspector General, Mail Stop 0305  
Attention: Office of Investigations Hotline  
245 Murray Drive, SW  
Washington, DC 20528-0305

You may also call 1(800) 323-8603 or fax the complaint directly to us at (202) 254-4297.

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