

OFFICE OF INSPECTOR GENERAL

**Management Letter for the U.S.
Customs and Border Protection's
FY 2014 Consolidated Financial
Statements Audit**



Homeland
Security

April 29, 2015
OIG-15-81



HIGHLIGHTS

Management Letter for the U.S. Customs and Border Protection's FY 2014 Consolidated Financial Statements Audit

April 29, 2015

Why We Did This

The Federal Government has a fundamental responsibility to be an effective steward of taxpayers' dollars. Sound financial practices and related management operations, reliable financial systems, and effective internal control are essential for reliable, timely financial information that supports management decision making needed to achieve the U.S. Customs and Border Protection's (CBP) mission.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OOIG.OfficePublicAffairs@oig.dhs.gov

What We Found

KPMG LLP reviewed CBP's internal control over financial reporting. The management letter contains 20 observations related to internal control and other operational matters for management's consideration.

KPMG LLP noted deficiencies and the need for improvement in certain CBP programs and processes. These deficiencies did not meet the criteria to be reported in the *Independent Auditors' Report on U.S. Customs and Border Protection's FY 2014 Financial Statements*, dated April 1, 2015, included in *CBP's Fiscal Year 2014 Performance and Accountability Report*. These observations are intended to improve internal control or result in other operating efficiencies.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

APR 29 2015

MEMORANDUM FOR: Jaye M. Williams
Chief Financial Officer
U.S. Customs and Border Protection

FROM: Mark Bell 
Assistant Inspector General for Audits

SUBJECT: *Management Letter for the U.S. Customs and Border Protection's FY 2014 Consolidated Financial Statements Audit*

Attached for your information is our final report, *Management Letter for the U.S. Customs and Border Protection's FY 2014 Consolidated Financial Statements Audit*. This report contains observations 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 2014 Financial Statements*. Internal control deficiencies which are considered significant deficiencies were reported, as required, in the *Independent Auditors' Report*, dated April 1, 2015, which was included in the *U.S. Customs and Border Protection's Fiscal Year 2014 Performance and Accountability Report*. We do not require management's response to the recommendations.

The independent public accounting firm KPMG LLP conducted the audit of the U.S. Customs and Border Protection's fiscal year 2014 financial statements and is responsible for the attached management letter and the conclusions expressed in it.

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

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

Attachment



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

April 1, 2015

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 year ended September 30, 2014 (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 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 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 April 1, 2015. The disposition of each internal control deficiency identified during our fiscal year (FY) 2014 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.

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

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

<u>FMC Reference</u>	<u>Subject</u>	<u>Page</u>
FMC 14-01	Weaknesses in the Recognition of Goods and Services Received as of March 31, 2014	1
FMC 14-02	Deficiencies in Controls over the Unfunded Annual Leave Accrual Process	1
FMC 14-03	Ineffective Controls over the Performance Management Program	2
FMC 14-04	Control Deficiencies over Customs Trade Partnership Against Terrorism Benefits	3
FMC 14-05	Lack of Implementation of Controls over Determining Classification of Leases	3
FMC 14-06	Ineffective Controls in the Seized and Forfeited Inventory Process	4
FMC 14-07	Deficiencies in the Public and Confidential Financial Disclosure Reporting Process	4
FMC 14-08	Control Deficiencies in the Estimated Accounts Receivable (Public) Process	5
FMC 14-09	Omission of Rotable Parts Accounting Policy from Non-GAAP Analysis	6
FMC 14-10	Failure to Establish and Review Significant Accounting Policies and Standard Operating Procedures in Various Areas	6
FMC 14-11	Untimely Review of Department of Labor Chargeback Reports	6
FMC 14-12	Lack of Implementation of Materiality Analysis for Seized and Forfeited Property Footnote	7
FMC 14-13	Ineffective Controls over the Timely Review of Liabilities for Deposit Accounts	8
FMC 14-14	Control Deficiency over the Performance of the September 30, 2014 Payroll Accrual Look-Back Analysis	8
FMC 14-15	Untimely Deobligation of Undelivered Orders	9
FMC 14-16	Lack of Controls over Monitoring and Tracking of Heritage Property, Plant, and Equipment	10
FMC 14-17	Deficiencies in Tracking Leases	10
FMC 14-18	Control Deficiencies over Underlying Data Used to Prepare the Fines, Penalties, and Forfeitures Receivable Adjusting Journal Entry	11
FMC 14-19	Ineffective Controls in the Review of Adjusting Journal Entries	11
FMC 14-20	Deficiency over the Year-End Statement of Differences Reconciliation	12

APPENDICES

<u>Appendix</u>	<u>Subject</u>	<u>Page</u>
A	Crosswalk – Financial Management Comments to Active Notices of Finding and Recommendation (NFRs)	13

Department of Homeland Security
U.S. Customs and Border Protection
Financial Management Comments
September 30, 2014

Financial Management Comment (FMC) 14-01 – Weaknesses in the Recognition of Goods and Services Received as of March 31, 2014 (*Notice of Finding and Recommendation (NFR) No. CBP 14-05*)

During test work as of March 31, 2014, we reviewed a statistical sample of 40 operating expense type transactions and identified that CBP's control over periodic review of potentially invalid goods receipts was not properly designed and implemented in fiscal year (FY) 2014, as timely resolution of all items on the report was not required. Specifically, we identified one instance where a duplicate service entry sheet was created for \$1.3 million while posting a credit against the original service entry sheet. There was not an invoice available to record against the duplicate service entry sheet.

Recommendation:

We recommend that the Goods Receipt/Service Entry Sheet Report be updated to require the status of the open goods receipts recorded in the report.

FMC 14-02 – Deficiencies in Controls over the Unfunded Annual Leave Accrual Process (*NFR No. CBP 14-08*)

During test work over unfunded annual leave, we noted the following:

- CBP did not have controls in place to ensure the completeness and accuracy of the underlying data used to calculate the quarterly unfunded leave liability. CBP prepared a quarterly adjusting journal entry based upon an unfunded leave report populated with data from U.S. Department of Agriculture and CBP's Time and Attendance Management System.
- During the walkthrough phase of our audit, we confirmed that there were no end-user controls in place to ensure the data CBP receives from U.S. Department of Agriculture is complete and accurate. CBP relies on this data, in conjunction with data from the Time and Attendance Management System, to record its unfunded leave liability.
- The control over the review of the quarterly adjusting journal entry is not properly designed and implemented. Specifically, CBP included unused compensatory leave for employees who are exempt from the Fair Labor Standards Act, home leave, and for the related administrative uncontrollable overtime in the unfunded leave liability. CBP is not obligated to pay these types of leave upon the separation of an employee and they should not have been included in the liability.
- Controls to ensure the interim non-GAAP analysis at April 30, 2014 did not operate effectively, as CBP's non-GAAP policy related to unfunded leave was omitted. Specifically, CBP properly recorded an unfunded leave accrual of annual leave balances as of the end of the last full pay period of a month. However, CBP did not reduce the amount of the unfunded leave accrual by the amount of unfunded leave

Department of Homeland Security
U.S. Customs and Border Protection
Financial Management Comments
September 30, 2014

taken between the end of the last full pay period and the end of the month because the information was not available in time for year-end reporting and the amount is immaterial.

Recommendations:

We recommend that CBP:

- Develop and implement a control to ensure the output data provided by the U.S. Department of Agriculture, used in the calculation of payroll and related expense balances, is materially complete and accurate.
- Update the programming used to calculate the unfunded leave accrual, to exclude compensatory leave for Fair Labor Standards Act exempt employees, home leave, and the related administrative uncontrollable overtime from the reported balance. In addition, CBP should document a process for an annual review of the types of leave and whether they are properly included or excluded from the unfunded leave liability.
- Continue to document the potential financial statement impact of this policy in the semi-annual non-GAAP analysis prepared in future years.

FMC 14-03 – Ineffective Controls over the Performance Management Program (NFR No. CBP 14-09)

We noted that controls over the non-senior executive service (SES) employee performance management process were not fully effective for FY 2014. Specifically, during test work over a sample of 45 non-SES employees (supervisory and non-supervisory), we noted 7 instances where CBP was unable to provide evidence that required performance reviews were completed in a timely manner.

Recommendations:

We recommend that CBP:

- Continue to closely monitor and reinforce supervisors' timely completion and issuance of performance plans, mid-cycle reviews and final ratings of record agency-wide.
- Identify and implement additional strategies to hold supervisors more accountable with regard to adhering to performance management policies and procedures, such as sending monthly e-mail notices to all supervisors reminding them of their performance management responsibilities and requiring program office performance management liaisons to provide senior leadership the names of supervisors who are past due on completing required performance management actions.
- Establish more direct contact with supervisors to reinforce their performance management responsibilities. Regular ongoing messages will continue to be sent to program offices regarding the issuance of performance plans, mid-cycle reviews, and final ratings of record.

Department of Homeland Security
U.S. Customs and Border Protection
Financial Management Comments
September 30, 2014

- Engage more with senior leadership within each program office to consistently reinforce performance management responsibilities and request they hold supervisors accountable for adhering to performance management policy.

FMC 14-04 – Control Deficiencies over Customs Trade Partnership Against Terrorism Benefits (NFR No. CBP 14-13)

During test work over a sample of 25 Customs Trade Partnership Against Terrorism (C-TPAT) validations and re-validations, we noted the control to ensure proper benefits are applied to a C-TPAT Partner's account was not always operating effectively. Specifically, benefits were not updated in the Automated Targeting System to reflect the results of the most recent Validation Report for one C-TPAT Partner.

Recommendations:

We recommend that CBP:

- Monitor C-TPAT partner benefits on a monthly basis, to verify that the Automated Targeting System appropriately reflects the Treasury Information Executive Repository status reported in the most recent Validation/Re-validation report.
- Send a report to the field offices in cases where discrepancies are identified and ensure timely resolution of those discrepancies.

FMC 14-05 – Lack of Implementation of Controls over Determining Classification of Leases (NFR No. CBP 14-14)

CBP did not fully implement controls to ensure proper classification of personal and Office of Information Technology property lease agreements as capital or operating. Specifically, CBP did not implement a process to classify these leases as capital or operating and does not maintain sufficient documentation that can serve as evidence to support CBP's classifications as capital or operating for personal and Office of Information Technology property.

Recommendation:

We recommend that CBP implement the Procurement Directorate's Personal Property Lease Classification Determination policy, which establishes the policy and procedures for determining the classification of any personal property leases (including rental agreements) as either a capital or operating lease. In addition we recommend that CBP ensure that the policy applies to all personal property leases, and includes specific responsibilities for the implementation of the policy.

Department of Homeland Security
U.S. Customs and Border Protection
Financial Management Comments
September 30, 2014

FMC 14-06 – Ineffective Controls in the Seized and Forfeited Inventory Process (NFR No. CBP 14-16)

Controls over the physical security and physical inventory of Seized and Forfeited Property were not operating effectively during FY 2014. Specifically, during test work at ten seized property vaults, we identified the following control deficiencies:

- One instance where the amount listed on the Custody Receipt for Seized Property and Evidence form did not agree with the amount listed in the Seized Asset and Case Tracking System (SEACATS) inventory.
- Two instances in one location where the vault log book evidenced that only one officer entered the vault for a period of time.
- Eighteen instances where a count team did not comply with the FY 2014 Vault and Temporary Secured Storage Facilities Inventory Instructions. The team was not properly recording updates to weights of seizures when the changes were considered to be immaterial.

Recommendation:

We recommend that CBP issue enhanced guidance to reinforce policies and procedures over activities around the custody, management, and accountability of seized property, vault access protocols, updating SEACATS timely, and performance of physical inventories.

FMC 14-07 – Deficiencies in the Public and Confidential Financial Disclosure Reporting Process (NFR No. CBP 14-18)

During test work over a sample of 15 Office of Government Ethics (OGE)-278s and 45 OGE-450s, we noted the following:

1. Controls to ensure proper review of OGE-278s and OGE-450s were not operating effectively. Specifically,
 - One instance where review of the OGE-278 was not initiated within the 60-day requirement.
 - One instance was noted where the review of the OGE-278 was initiated within the 60-day requirement, but was not completed until after the 60-day review period. CBP was unable to provide documentation to evidence that the Ethics Official was actively working to complete the review (i.e. communicating with the filer to resolve open questions or discrepancies) prior to the end of the 60-day period.
 - One instance where review of the OGE-450 was not initiated within the 60-day requirement.
2. Controls to ensure OGE-278s are filed timely were not operating as we noted one instance where the OGE-278 was not filed by the deadline.

Department of Homeland Security
U.S. Customs and Border Protection
Financial Management Comments
September 30, 2014

Recommendations:

We recommend that CBP enhance its communication surrounding the filing process, including the following:

- Amending OGE Form 450 and OGE Form 278 directives that are currently awaiting approval from the ethics office at DHS Headquarters to specify that all reports shall be reviewed within 60 days after the date of filing.
- Notifying filers of the potential \$200 late filing fee for missing the OGE Form 278 filing deadline when notification to complete a filing is sent.

FMC 14-08 – Control Deficiencies in the Estimated Accounts Receivable (Public) Process (NFR No. CBP 14-19)

During test work over accounts receivable, we noted the following:

1. CBP's documented standard operating procedures (SOPs) over performance of the Automated Commercial System (ACS) to User Fee Database Reconciliation and preparation of the Estimated Receivable Report were not properly authorized.
2. Controls over the estimated accounts receivable process did not operate effectively in FY 2014. Specifically,
 - CBP did not perform the January 2014 ACS to User Fee Database reconciliations timely, as the reconciliation was not performed within the subsequent month. The reconciliation of Customs User Fees was prepared on March 21, 2014 and reviewed on April 14, 2014, and the reconciliation of Immigration User Fees was prepared on April 10, 2014 and reviewed on April 14, 2014.
 - CBP improperly included Accounts Receivables balances, and the related Allowance for Doubtful Accounts, for amounts to which CBP no longer had a claim to payment as of September 30, 2014. CBP determined that eight outstanding Customs User Fee bills in the amount of \$1.6 million and six outstanding Immigrations User Fees bills in the amount of \$1.5 million were no longer valid receivables as of September 30, 2014. We noted two of the 14 outstanding bills deemed no longer valid had been submitted for approval to be removed in FY 2011.

Recommendations:

We recommend that CBP establish policies and procedures over the Estimated Accounts Receivable process to ensure the following:

- Responsibilities are properly reassigned in the absence of CBP personnel who have primary ownership of the process.
- Invalid receivables are removed from the receivable balance in a timely manner.

FMC 14-09 – Omission of Rotable Parts Accounting Policy from Non-GAAP (Generally Accepted Accounting Principles) Analysis (NFR No. CBP 14-21)

CBP's controls over identifying and evaluating non-GAAP accounting policies were not operating effectively in FY 2014. Specifically, CBP's non-GAAP accounting policy analysis did not identify rotatable parts (i.e. spare parts such as engines and propellers), which meet the definition of property, plant & equipment per Statement of Federal Financial Accounting Standards No. 6, but were recorded as operating materials and supplies, as a non-GAAP accounting policy.

Recommendation:

We recommend CBP work with the Department and Coast Guard to determine the proper accounting for rotatable parts.

FMC 14-10 – Failure to Establish and Review Significant Accounting Policies and Standard Operating Procedures in Various Areas (NFR No. CBP 14-23)

CBP did not properly implement controls to ensure significant accounting policies and SOPs are formally documented, complete, and updated/revised timely. Specifically:

- Six SOPs were outdated or were no longer appropriate.
- One SOP did not exist.
- Two SOPs were incomplete.
- The level of precision contained in three SOPs was not properly documented.

Recommendations:

We recommend that CBP implement entity-level controls across the organization to ensure the following:

- All significant policies and procedures are formally documented, meaning the policy has been written up in sufficient detail and the policy has been approved/authorized by personnel with authority to establish organizational policy.
- All significant policies and procedures are periodically reviewed and updated to ensure the policy remains current and applicable.

FMC 14-11 – Untimely Review of the Quarterly Department of Labor Chargeback Reports (NFR No. CBP 14-24)

The quarterly control over review of the Department of Labor (DOL) chargeback report did not operate effectively in fiscal year FY 2014, as 93 of 110 offices did not review the March 31, 2014 DOL Chargeback report by June 30, 2014. Specifically, the 93 offices did not submit acknowledgment of the review and the detail of any errors identified, within 90 days from the end of the second quarter. We do note that the 93 offices did

Department of Homeland Security
U.S. Customs and Border Protection
Financial Management Comments
September 30, 2014

submit their reviews by August 25, 2014. However, the following 35 errors were identified in the March 31, 2014 DOL chargeback reports of those 93 offices that submitted late:

- Nine Date of Birth Corrections
- Twenty-one Agency Chargeback Code Corrections
- One possible Overpayment
- Three Social Security Number Corrections
- One Name Spelling Correction

Recommendations:

We recommend CBP incorporate a monitoring/tracking control to ensure timely review and submission occurs across all field offices. For example:

- Development of a tracking system on SharePoint for accountability of reviews and acknowledgements by all program offices.
- Increasing direct communications with program offices to:
 - Troubleshoot SharePoint issues, to prevent untimely submissions from occurring.
 - Obtain an understanding of the root causes of delays in review and acknowledgement of the chargeback reports and determine if revisions/adjustments to the submission process are necessary.
- Increasing accountability of program offices, through periodic reporting of untimely submissions to CBP Management.

FMC 14-12 – Lack of Implementation of Materiality Analysis for Seized and Forfeited Property Footnote (NFR No. CBP 14-25)

Controls related to CBP's disclosure of seized and forfeited property were not fully documented in FY 2014. Specifically, the process for analyzing changes to the footnote was not formally documented until July 2014, although we determined an analysis was performed in February 2014. Furthermore, CBP's SOP, *Annual Review of Drugs to be Added or Deleted from the Rollforward* was insufficient. It failed to identify why the quantitative thresholds are appropriate and what the qualitative factors to be used should be and why they would be relevant. The SOP refers to "a more extensive evaluation", without any further clarification.

Recommendation:

We recommend CBP update the SOP, *Annual Review of Drugs to be Added or Deleted from the Rollforward*, to more specifically document the rationale for the quantitative thresholds and examples of qualitative factors that are considered when making materiality determinations regarding what categories of seized and forfeited property are to be disclosed in the footnote disclosure. The SOP should also be updated to document what CBP considers appropriate documentation of the materiality considerations and the related retention period for such documentation.

FMC 14-13 – Ineffective Controls over the Timely Review of Liabilities for Deposit Accounts (NFR No. CBP 14-26)

Controls to ensure timely review and resolution of prior disclosures recorded as liabilities for deposit were not effectively implemented in FY 2014. Specifically, we selected a statistical sample of six items recorded in the liabilities for deposit accounts balance as of June 30, 2014 and noted the following:

- One prior disclosure tested was recorded as a liability for deposit account in FY 2008, and was not resolved and recorded as a collection for duty owed until August 2014, when the amount was reclassified as custodial liability (i.e. Due to General Fund). CBP was unable to provide supporting documentation to evidence the prior disclosure was being actively researched and resolved during this six year period on at least a quarterly basis in accordance with policy.
- Four prior disclosures samples were not resolved timely. CBP was unable to provide sufficient documentation that the prior disclosures were actively researched on at least a quarterly basis in accordance with policy, as a result their status remained undetermined.

Recommendations:

We recommend that CBP:

- Establish monitoring controls to ensure that all items held in liabilities for deposit accounts are reviewed on at least a quarterly basis.
- Office of Trade redistribute applicable policies and procedures for the quarterly review of items held in liabilities for deposit accounts.

FMC 14-14 – Control Deficiency over the Performance of the September 30, 2014 Payroll Accrual Look-Back Analysis (NFR No. CBP 14-27)

The monthly control over the look-back analysis of the funded payroll accrual was not operating effectively in FY 2014. Specifically, we noted the final look-back analysis comparing the accrual to actual expense incurred for the 7 business days of pay period 19 that occurred in FY 2014 was not performed timely by the end of October 2014, as it was prepared and reviewed on November 6, 2014. We noted that pay period 19 began on September 21, 2014 and ended on October 4, 2014, and the respective payroll report of actual payroll expense became available to CBP on October 15, 2014. CBP performed a preliminary look-back analysis by comparing actual payroll expense incurred in pay period 18 (which was paid out on September 30, 2014) to the year-end accrual. However, the final look-back was not performed prior to the end of October.

Department of Homeland Security
U.S. Customs and Border Protection
Financial Management Comments
September 30, 2014

Recommendation:

We recommend that CBP modify the respective policy or procedure to specify a timeframe for performance of the monthly control, to ensure it is performed timely by the end of the subsequent month.

FMC 14-15 – Untimely Deobligation of Undelivered Orders (NFR No. CBP 14-28)

Controls in place to ensure all open obligations are properly identified as valid or invalid were not effectively implemented in FY 2014. Specifically:

1. During test work over 85 inactive open obligations (i.e. those with no activity in the current fiscal year) performed as of May 31, 2014, we noted the following exceptions:
 - Two instances where the open obligation was improperly identified as invalid (Status 3) on the March 31, 2014 Quarterly Obligation Analysis.
 - Six instances where the open obligation was improperly determined to be valid (Status 1) on the March 31, 2014 Quarterly Obligation Analysis.
 - One instance where the open obligation was appropriately identified as Invalid (Status 3) on March 31, 2014 Quarterly Obligation Analysis but was inappropriately changed to Under Review (Status 2) on the September 30, 2014 Quarterly Obligation Analysis.
2. During test work over 135 active open obligations (i.e. those with activity in the current fiscal year) performed as of August 31, 2014, we noted the following exceptions:
 - One instance where an open obligation created in FY 2014 was improperly assessed as valid per CBP's UDO certification process.
 - One instance where an open obligation was improperly determined to be valid (Status 1) on the June 30, 2014 Quarterly Obligation Analysis.

Recommendations:

We recommend that CBP:

- Increase the extent of its monitoring over performance of the Quarterly Obligation Analysis; including ensuring that adequate detail is retained to support the determination provided in the analysis.
- Provide training to individuals completing the analysis to ensure a consistent approach to performing the review and making status assessments is implemented across the organization.

Department of Homeland Security
U.S. Customs and Border Protection
Financial Management Comments
September 30, 2014

FMC 14-16 – Lack of Controls over Monitoring and Tracking of Heritage Property, Plant, and Equipment (NFR No. CBP 14-29)

CBP lacked policies and procedures to ensure all assets comprising the collections of documents and artifacts are appropriately reviewed, classified, recorded, and safeguarded in accordance with the criteria in Statement of Federal Financial Accounting Standards No. 29. Additionally, CBP did not have controls in place to ensure all new and/or potential heritage assets were identified at Ports, Customs Houses and field units, and reported to the Historical Program Office.

Recommendation:

We recommend CBP dedicate sufficient resources to develop and implement policies and procedures to ensure the completeness and accuracy of new, existing, and/or potential heritage; this should include ensuring these assets are identified and tracked.

FMC 14-17 – Deficiencies in Tracking Leases (NFR No. CBP 14-31)

During test work over leases, we identified the following:

1. Controls to ensure completeness and accuracy of the lease population used to prepare the operating lease footnote disclosure were not operating effectively. During our testing of CBP's September 30, 2014 lease information, we selected a sample of 25 lease payments and identified the following:
 - One instance where a direct real property lease was improperly classified as non-cancelable rather than cancelable, as we noted the lease agreement included a cancellation clause in which the lease could be canceled within a period of one year.
 - Nine instances where direct, cancelable leases were improperly omitted from the footnote disclosure. We noted all leases, both non-cancelable and cancelable, where the non-cancelable portion of the lease term was greater than one year were required to be presented in the footnote disclosure per the DHS Component Requirements Guide.
2. We noted controls to ensure the semi-annual non-GAAP analysis did not operate effectively in FY 2014, as CBP's non-GAAP policy related to disclosure of operating leases of personal property was omitted. Specifically, CBP did not disclose future minimum lease payments of personal property in the operating lease footnote disclosure.

Recommendations:

We recommend that CBP:

- Review policies and procedures to ensure that they are clearly documented in accordance with generally accepted accounting principles, and with the DHS Components Requirements Guide.

Department of Homeland Security
U.S. Customs and Border Protection
Financial Management Comments
September 30, 2014

- Establish monitoring controls to ensure personnel are preparing the operating lease footnote disclosure in accordance with the policies and procedures.

FMC 14-18 – Control Deficiencies over Underlying Data Used to Prepare the Fines, Penalties, and Forfeitures Receivable Adjusting Journal Entry (NFR No. CBP 14-32)

Controls to ensure completeness and accuracy of the underlying data used to record the open fines and penalties receivables balance were not properly designed and implemented in FY 2014. Specifically, the monthly dataset that was generated from SEACATS of open fines and penalties receivables pulled the lowest mitigated amount per SEACATS, and did not account for cases when the mitigation period may have lapsed. Once the mitigation period lapsed, the receivable amount on the report should revert to the actual unmitigated amount owed as of September 30, 2014. During year-end testing, we reviewed a statistical sample of four open fines, penalties, and forfeitures receivables and noted one instance where an open fines, penalties, and forfeitures receivable was recorded through the monthly fines, penalties, and forfeitures receivables adjusting journal entry as \$2.2 million, when the accurate receivable amount, as recorded in SEACATS and per the bill issued to the debtor, was \$4.4 million.

Recommendations:

We recommend that CBP:

- Request that CBP's SEACATS modernization development team design a new query to ensure the appropriate information (i.e. the true receivable amount owed to CBP) is included in the report used by CBP to record the fines, penalties, and forfeitures receivable adjusting journal entry.
- Design and implement a compensating control to ensure the lowest mitigated amount per the SEACATS report is the accurate receivable amount owed to CBP until the new query is utilized.

FMC 14-19 – Ineffective Controls in the Review of Adjusting Journal Entries (NFR No. CBP 14-33)

Controls over the review of adjusting journal entries were not operating effectively in FY 2014. Specifically, during test work performed over CBP's September prior year recoveries reconciliation, we noted that although the reconciliation was performed properly, the associated adjusting journal entry was reviewed by someone other than the preparer. However, it was not reviewed and approved by a Lead Accountant or Section Chief within the Regulatory Reporting section.

Recommendations:

We recommend that CBP:

- Reinforce the importance of following adjusting journal entry review procedures.

Department of Homeland Security
U.S. Customs and Border Protection
Financial Management Comments
September 30, 2014

- Consider implementation of an automated adjusting journal entry review process within the general ledger, which would ensure that an adjusting journal entry is not posted to the general ledger without being properly reviewed.

FMC 14-20 – Deficiency over the Year-End Statement of Differences Reconciliation (NFR No. CBP 14-34)

We determined that CBP did not have a control in place to ensure year-end intragovernmental balances reported for advances and prepayments were accurate. Specifically, we noted a difference of \$25.3 million for the reported balance at September 30, 2014 with the Department of Transportation. KPMG issued a confirmation to the Department of Transportation to confirm the year-end balance reported by CBP of \$112.3 million. Per the confirmation response, the Department of Transportation reported an ending balance of \$87.0 million. CBP was unable to provide sufficient audit evidence to reconcile or resolve the noted discrepancy.

Recommendation:

We recommend that CBP establish policies and procedures to validate advance balances quarterly by reaching out to the applicable trading partners to confirm agreement of outstanding advance balances.

Department of Homeland Security
U.S. Customs and Border Protection
Financial Management Comments
September 30, 2014

Appendix A: Crosswalk – Financial Management Comments to Active NFRs

FY 14 NFR No.	Description	Disposition*			
		Independent Auditors' Report			FMC
		Material Weakness	Significant Deficiency	Non-Compliance	Number
CBP-14-01	Deficiencies in the Design of the Drawback Compliance Review Process	A			
CBP-14-02	Lack of Controls to Detect Excessive Drawback Claims	A			
CBP-14-03	Insufficient Retention Period for Documents that Support Drawback Claims	A			
CBP-14-04	Lack of Controls to Determine Sufficiency of Drawback Continuous Bonds for Claimants Qualified for Accelerated Payments	A			
CBP-14-05	Weaknesses in the Recognition of Goods and Services Received as of March 31, 2014				14-01
CBP-14-06	Inadequate Controls over Settlement of Assets, as of April 30, 2014		B		
CBP-14-06a	Inadequate Controls over Settlement of Assets, as of September 30, 2014		B		
CBP-14-07	Ineffective Control over Asset Disposals, as of April 30, 2014		B		
CBP-14-08	Deficiencies in Controls over the Unfunded Leave Accrual Process				14-02
CBP-14-09	Ineffective Controls over the Performance Management Program				14-03
CBP-14-10	Control Deficiencies in the Bonded Warehouse and Foreign Trade Zone Processes and Procedures		C		
CBP-14-11	Control Deficiencies over the In-Bond Process		C		
CBP-14-12	Ineffective Controls over Review of Entry Edit/Exception Reports		C		
CBP-14-13	Control Deficiencies over Customs-Trade Partnership Against Terrorism (C-TPAT) Benefits				14-04

Department of Homeland Security
U.S. Customs and Border Protection
Financial Management Comments
September 30, 2014

FY 14 NFR No.	Description	Disposition*			
		Independent Auditors' Report			FMC
		Material Weakness	Significant Deficiency	Non-Compliance	Number
CBP-14-14	Lack of Implementation of Controls over Determining Classification of Leases				14-05
CBP-14-15	Ineffective Controls over the Refunds Prior To Disbursement	A			
CBP-14-16	Deficiencies in the Seized Inventory Process				14-06
CBP-14-17	Ineffective Controls over the Review of Bond Sufficiency		C		
CBP-14-18	Deficiencies in the Public and Confidential Financial Disclosure Reporting Process				14-07
CBP-14-19	Control Deficiencies in the Estimated Accounts Receivable (Public) Process				14-08
CBP-14-20	Management Oversight of Property, Plant, and Equipment (PP&E)		B		
CBP-14-21	Omission of Rotable Parts Accounting Policy From Non-GAAP Analysis				14-09
CBP-14-22	Non-Compliance With Federal Financial Management Improvement Act (FFMIA)			Compliance Determined at the Department Level	
CBP-14-23	Failure to Establish and Review Significant Accounting Policies and Standard Operating Procedures in Various Areas				14-10
CBP-14-24	Untimely Review of Quarterly DOL Chargeback Reports				14-11
CBP-14-25	Lack of Implementation of Materiality Analysis for Seized Property Footnote				14-12
CBP-14-26	Ineffective Controls over the Timely Review of Liabilities for Deposit Accounts				14-13
CBP-14-27	Control Deficiency over September Funded Payroll Accrual Look-Back				14-14
CBP-14-28	Improper Review and Untimely Deobligation of Undelivered Orders (UDOs)				14-15
CBP-14-29	Lack of Controls over Monitoring of Heritage Asset Collections				14-16
CBP-14-30	Misclassification of Custodial Liabilities as Accounts Payable Related to Puerto Rico		C		
CBP-14-31	Deficiencies in Tracking Leases				14-17

Department of Homeland Security
U.S. Customs and Border Protection
Financial Management Comments
September 30, 2014

FY 14 NFR No.	Description	Disposition*			
		Independent Auditors' Report			FMC
		Material Weakness	Significant Deficiency	Non-Compliance	Number
CBP-14-32	Control Deficiencies over Underlying Data Used to Prepare the FP&F Receivable Adjusting Journal Entry				14-18
CBP-14-33	Ineffective Controls in the Review of Adjusting Journal Entries (AJEs)				14-19
CBP-14-34	Lack of Controls over Advances and Prepayments				14-20

*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



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Department of Homeland Security

Appendix B **Report Distribution**

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