

**OFFICE OF INSPECTOR GENERAL**

**Independent Auditors' Report  
on U.S. Customs and Border  
Protection's FY 2015  
Consolidated Financial  
Statements**



Homeland  
Security

**March 21, 2016  
OIG-16-54**



# **DHS OIG HIGHLIGHTS**

## ***Independent Auditors' Report on U.S. Customs and Border Protection's FY 2015 Consolidated Financial Statements***

**March 21, 2016**

### **Why We Did This Audit**

U.S. Customs and Border Protection (CBP) prepares annual financial statements to demonstrate accountability to Congress and the public. CBP uses the same guidance and statutory framework used by the Department of Homeland Security (DHS). We contracted with KPMG LLP to audit CBP's fiscal year (FY) 2015 financial statements to express an opinion over the fairness of presentation of those statements.

### **What We Recommend**

KPMG LLP made 11 recommendations to improve internal control over financial reporting and increase the reliability of financial systems and operations. These recommendations address the four significant deficiencies identified in the report.

#### **For Further Information:**

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

### **What We Found**

Under contract with DHS Office of Inspector General, the independent public accounting firm KPMG LLP has issued an unmodified (clean) opinion on CBP's FY 2015 consolidated financial statements. In the independent auditors' opinion, the financial statements present fairly, in all material respects, CBP's financial position as of September 30, 2015.

The report identifies four significant deficiencies in internal control, two of which are considered material weaknesses. The material weaknesses are in drawback of duties, taxes, and fees and information technology. The two other significant deficiencies were in internal control in the entry process and entity-level controls.

### **CBP's Response**

CBP concurred with the two material weaknesses and the two significant deficiencies identified in the report and indicated that management will continue to work to resolve all identified weaknesses.



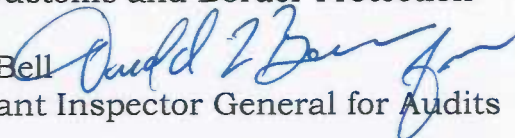
## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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

March 21, 2016

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

FROM: Mark Bell   
Assistant Inspector General for Audits

SUBJECT: *Independent Auditors' Report on U.S. Customs and Border Protection's FY 2015 Consolidated Financial Statements*

Attached for your action is our final report, *Independent Auditors' Report on U.S. Customs and Border Protection's FY 2015 Consolidated 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 statements audits for fiscal years (FY) 2015 and 2014. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audits. KPMG concluded that CBP's consolidated financial statements as of and for the years ended September 30, 2015, and September 30, 2014, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

The independent auditors' report also contains observations and 11 recommendations related to internal control weaknesses that are considered significant deficiencies and are required to be reported in the financial statements audit report. Your office concurred with the four significant deficiencies in internal control presented below, the first two of which are considered to be material weaknesses:

### Significant Deficiencies in Internal Control

- A. Drawback of Duties, Taxes, and Fees
- B. Information Technology
- C. Entry Process
- D. Entity-Level Controls

KPMG is responsible for the attached independent auditors' report dated March 8, 2016, and the conclusions expressed in the report. To ensure



## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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the quality of the audit work performed, we evaluated KPMG's qualifications and independence, reviewed the approach and planning of the audit, monitored the progress of the audit at key points, reviewed and accepted KPMG's audit report, and performed other procedures that we deemed necessary.

Additionally, we provided oversight of the audit of financial statements and certain accounts and activities conducted at CBP. Our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to 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 Maureen Duddy, Deputy Assistant Inspector General for Audits, at (617) 565-8723.

Attachment



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

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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, 2015 and 2014, 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. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 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***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Customs and Border Protection as of September 30, 2015 and 2014, and its net costs, changes in net position, custodial activity, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

### ***Other Matters***

Management has elected to reference to information on websites or other forms of interactive data outside the *Performance and Accountability Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

### ***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 Table of Contents, Introduction, Performance Section, Message from the Chief Financial Officer, and Other Information, as reflected in CBP's *Fiscal Year 2015 Performance and Accountability Report*, are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit 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 as of and for the year ended September 30, 2015, 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 material weaknesses 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 material weaknesses.

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

**I-B.** Information Technology

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.

**II-C.** Entry Process

**II-D.** Entity-Level Controls

### ***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, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02. With respect to other matters, we noted DHS is currently reviewing one potential violation of the *Antideficiency Act*. As of the date of this report, no final noncompliance determination has been made for the incident.





***CBP's Response to Findings***

CBP's response to the findings identified in our audit are described in Management's Response to the Independent Auditors' Report. CBP's 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.

***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.  
March 8, 2016

**Independent Auditors' Report**  
**Introduction to Exhibits on Internal Control over Financial Reporting**

The internal control weaknesses in financial reporting, and findings related to compliance with certain laws, regulations, contracts, and grant agreements presented herein were identified during our audit of CBP financial statements as of September 30, 2015. Our findings are presented in two exhibits:

**Exhibit I** Findings that individually or in the aggregate are considered material weaknesses in internal control over financial reporting affecting the CBP's consolidated financial statements.

**Exhibit II** Findings that individually or in aggregate are considered significant deficiencies in internal control over financial reporting, which are less severe than a material weakness, yet important enough to merit the attention of CBP's management and others in positions of oversight at CBP.

**Criteria** Index of Financial Reporting and Internal Control Criteria

**Attachment** Management's response to our findings

The determination of which findings rise to the level of a material weakness or significant deficiency is based on an evaluation of how identified deficiencies, considered in aggregate, may affect the CBP's financial statements as of September 30, 2015.

A summary of our findings in fiscal year (FY) 2015 and FY 2014 are presented in the tables below:

**Table 1** Presents a summary of CBP's material weaknesses for FY 2015 and FY 2014.

**Table 2** Presents a summary of CBP's significant deficiencies for FY 2015 and FY 2014.

The criteria supporting our findings, such as references from technical accounting standards, various rules and regulations, including requirements issued by the OMB and the U.S. Treasury, and internal Departmental and component directives, are presented in the *Index of Financial Reporting and Internal Control Criteria* behind Exhibit II.

**TABLE 1 – Summarized CBP FY 2015 and FY 2014 Material Weaknesses**

	Comments / Financial Statement Area	FY 2015	FY 2014
A	Drawback of Duties, Taxes and Fees	MW	MW
B	Information Technology	MW	SD

**TABLE 2 – Summarized CBP FY 2015 and FY 2014 Significant Deficiencies**

	Comments / Financial Statement Area	FY 2015	FY 2014
C	Entry Process	SD	SD
D	Entity-Level Controls	SD	CD
E	Property, Plant and Equipment	CD	SD

**Independent Auditors' Report**  
**Introduction to Exhibits on Internal Control over Financial Reporting**

<b>MW</b>	Material Weakness when control deficiencies are aggregated
<b>SD</b>	Significant Deficiency when control deficiencies are aggregated
<b>CD</b>	Control Deficiencies were identified but did not aggregate to an SD or MW

## **EXHIBIT I – Material Weaknesses in Internal Control over Financial Reporting**

### **I-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) 2015, CBP collected approximately \$41.4 billion in import duties, taxes, and fees on merchandise arriving in the United States from foreign countries. Receipts of import duties and related refunds are presented in the statement of custodial activity in CBP's consolidated financial statements.

Drawbacks are a remittance, in whole or in part, of duties, taxes, or fees previously paid by an importer. Drawbacks typically occur 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.

The conditions cited below have existed for several years; however, CBP's planned remediation for these conditions is dependent upon funding for information technology (IT) systems modernization and new system implementation. In FY 2015, CBP continued its efforts to review and reassess the drawback process as a whole.

#### **Conditions:**

We identified the following conditions in internal control over refund and drawback of duties, taxes, and fees paid by the importer:

- The current entry/collections system lacked automated controls necessary to prevent, or detect and correct excessive drawback claims. The programming logic did not link drawback claims to imports at a detailed level. In addition, the system did not have the capability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries and export documentation upon which the drawback claim is based. Further, the system had not been configured to restrict drawback claims to 99 percent of each entry summary in accordance with regulation.
- Manual drawback review policies did not require drawback specialists to review all, or a statistically valid sample, of prior drawback claims against a selected import entry to determine whether, in the aggregate, an excessive amount was claimed against import entries.
- Documentation retention periods were not appropriate to ensure that support for drawback transactions was maintained for the full claim time period.
- The automated control designed to prevent a claimant from exceeding the continuous bond amount on file did not operate effectively.

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

IT system functionality and outdated IT systems contribute to the weaknesses identified above. Refer to Comment **I-B**, *Information Technology Controls and Financial System Functionality*. For drawback, much of the process is manual until IT system functionality improvements are made, placing an added burden on limited resources and increasing the risk of error. CBP does not currently have sufficient resources to effectively perform compensating manual controls over drawback claims. CBP is pursuing changes to statutes, which govern the drawback process, to

## **EXHIBIT I – Material Weaknesses in Internal Control over Financial Reporting**

further reduce the need for manual controls. The length of the drawback claim lifecycle often extends beyond the documentation retention period, which is set by statute. Until effective automated and manual controls are implemented over the drawback process, CBP may be subject to financial loss due to possible excessive drawback claims.

### **Criteria:**

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

### **Recommendations:**

We recommend that CBP:

- Continue to pursue compensating controls and measures that could ultimately identify the potential revenue loss exposure to CBP. These compensating controls over drawback claims may lead to the ability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries and export documentation for which the drawback claim is based, and identify duplicate or excessive drawback claims.
- Develop and implement automated controls, where feasible, to prevent overpayment of a drawback claim.
- Continue to pursue Congressional action to change the statutory requirement for document retention on drawback claims.
- Continue to analyze current policies and procedures performed at the drawback centers and revise as necessary.

## **I-B. Information Technology**

### **Background:**

Controls over 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 (i.e., security management, access control, configuration management, segregation of duties, and contingency planning) and four key application control areas (i.e., 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.

During our FY 2015 assessment of general IT controls (GITCs) and process-level IT application controls, we noted that, although CBP made some progress in remediating IT findings we reported in FY 2014, significant new findings were noted in FY 2015. Those new findings were related to: (1) controls that were effective in prior years, or (2) control deficiencies noted over new systems that were similar to deficiencies previously reported.

### **Conditions:**

During FY 2015, 28 IT control deficiencies were identified. A number of the control deficiencies related to user access and audit logging, which collectively limited CBP's ability to support

## **EXHIBIT I – Material Weaknesses in Internal Control over Financial Reporting**

assertions that critical financial and operational data confidentiality, integrity, and availability are maintained. Eleven of the 28 conditions were related to new systems not tested in previous years. During FY 2015, CBP took corrective actions to address some of the prior year IT control deficiencies; three of which were successfully closed.

In summary, we noted the following:

### *1. Access Controls:*

- Management did not consistently or completely develop and formally document policies and procedures for managing and monitoring access to key financial applications and underlying system software components.
- Initial authorization and periodic recertification of application, database, and operating system user, service, and generic accounts (including emergency and temporary access) was inadequate, inconsistent, or in violation of the principles of least privilege and segregation of duties.
- Technical controls over logical access to key financial applications and underlying system software components, including password and inactivity requirements and account and data protection security configurations, were not consistently implemented in accordance with DHS requirements.
- Controls over the generation, review, analysis, and protection of application, database, and operating system audit logs were not fully implemented or were inconsistently performed.
- Transferred and/or terminated employees' and contractors' access privileges were not always consistently or timely removed from financial systems and general support systems, and controls related to review and revocation of system access were not always implemented or finalized.

### *2. Configuration Management:*

- Vulnerability management activities, including performing internal scans of financial applications and system software, monitoring vulnerabilities identified, and implementing vendor-recommended patches to address known vulnerabilities, were not consistently performed.
- Monitoring controls to ensure the completeness and integrity of records of approved system changes for key financial systems were not always implemented.
- Configuration changes to financial systems were not consistently tested before deployment to the production environment.

### *3. Segregation of Duties:*

- Implementation of segregation of duties for IT and financial management personnel with access to financial systems across several platforms and environments (including the development and production environments) was inadequate or incomplete.

### *4. Contingency Planning:*

- Controls over the performance of periodic backups were not fully implemented.

## **EXHIBIT I – Material Weaknesses in Internal Control over Financial Reporting**

### *Conditions Related to Financial System Functionality:*

In addition to the GITC deficiencies noted above, we identified several instances where financial system functionality limitations were inhibiting CBP’s ability to implement and maintain internal control, including process-level IT application controls supporting financial data processing and reporting. Financial system functionality limitations also contributed to other control deficiencies, reported in Exhibits I and II. We noted persistent and pervasive financial system functionality conditions in the following general areas:

- System software supporting key financial applications, feeder systems, and general support systems either lacked the required functionality to implement effective controls or were outdated and no longer supported by the respective vendors, resulting in unmitigated vulnerabilities that exposed underlying data to potential unauthorized and undetected access and exploitation.
- GITCs and financial process areas were implemented or supported by manual processes, outdated or decentralized systems or records management processes, or utilities with limited automated capabilities. These limitations introduced a high risk of error and resulted in inconsistent, incomplete, or inaccurate control execution and supporting documentation.
- Financial system controls were not fully effective to efficiently provide readily auditable transaction populations without substantial manual intervention and additional supporting information which increased the risk of error.

In addition to the above general areas, system limitations contributed to deficiencies noted in multiple financial process areas. For example, system configurations and posting logic deficiencies limited the effectiveness of controls to properly calculate the value of certain transactions, identify funding variances, or prevent or detect and correct excessive refund claims. In some cases, while components implemented manual processes to compensate for these limitations, these manual processes were prone to error and increased the risk that financial data and transactions were improperly posted to the respective systems.

### **Criteria:**

The criteria will be presented in a separate, restricted distribution report that discusses the general IT control and functionality deficiencies in greater detail.

### **Cause/Effect:**

The control deficiencies described in this exhibit stem from a number of systemic root causes. In many cases, resource limitations; ineffective or inadequate management oversight; the complex, highly interrelated yet decentralized nature of systems and system components; and/or error-prone manual processes resulted in inadequately designed and implemented or ineffectively operating controls. In some cases, cost-prohibitive options for vendor support have limited system development activity to “break/fix” and sustainment activities.

CBP management continued to recognize the need to modernize its financial systems. Until necessary legacy IT issues are addressed, and updated IT solutions are implemented, compensating controls and other complex manual workarounds must be used to support CBP’s IT environment and financial reporting processes. As a result, CBP’s difficulty attesting to a strong

## **EXHIBIT I – Material Weaknesses in Internal Control over Financial Reporting**

control environment, to include effective GITCs and reliance on key financial systems, will likely continue.

The conditions supporting our findings collectively limit CBP's ability to process, store, and report financial data in a manner to ensure accuracy, confidentiality, integrity, and availability. Some of the weaknesses could result in material errors in CBP's financial data that are not detected in a timely manner through the normal course of business. Because of the presence of IT control and financial system functionality weaknesses, there is added pressure on mitigating controls to operate effectively. Because mitigating controls were often more manually focused, there was an increased risk of human error that could materially affect the financial statements.

### **Recommendations:**

We recommend that CBP management continue to make necessary improvements to the CBP's financial management systems and supporting IT security controls. Specific, more detailed recommendations were provided in individual limited distribution (For Official Use Only) Notices of Findings and Recommendations (NFRs) and a separate letter provided to CBP management.



## **EXHIBIT II – Significant Deficiencies in Internal Control over Financial Reporting**

### **II-C. Entry Process**

#### **Background:**

CBP collected approximately \$41 billion in import duties, taxes, and fees on merchandise arriving in the United States from foreign countries. Our findings over the entry process include conditions identified in entry reports review, collections and deposits, refunds, bond sufficiency, liabilities for deposit accounts, and fines and penalties receivable.

Collections of cash and checks are made by port personnel on a daily basis for importer payment of duties, taxes, and fees. This collections detail is entered into CBP's system of record and then deposited with the U.S. Treasury.

Refunds occur when a claimant has paid duties, taxes, fees, and interest in excess of the amount due. As a result, a refund check is issued. CBP issues a variety of refunds, including baggage declaration refunds, refunds of cash deposits in lieu of surety, mail refunds, and administrative refunds of formal entry collections.

CBP assesses fines and penalties for violations of trade and importation laws and regulations under 19 Code of Federal Regulations (CFR) 171 and 19 CFR 172. Fines or liquidated damages arise from Importer/Broker violations of CBP bond agreements or trade laws and regulations (e.g., breach of the bond, late filing). Penalties may arise from violations of 19 United States Code (USC) 1592, related to importing and exporting of goods (e.g., marking violations).

CBP requires bonds from parties that import merchandise into the United States. These bonds are contracts to secure payment of duties, taxes, and fees in the event that an importer fails to fulfil their financial obligations. The assessment of liquidated damages against a bond serves to promote compliance with laws and regulations.

CBP personnel process and review certain entry edit and exception reports to monitor the status of rejected, cancelled, and unpaid entries, as well as to track suspense items.

Collections received that cannot be matched to an associated transaction or receivable are posted to the Budget Clearing Account (BCA). These items, which are referred to as intentional postings, are reported on the balance sheet as liabilities for deposit accounts, and are researched by CBP to determine whether the amount submitted is due to CBP, as well as whether any additional amount is owed.

Many of the conditions cited below have existed for several years. Management has stated that the timeframe for remediation of these conditions is dependent on funding for IT system upgrades and new system implementation.

#### **Conditions:**

In summary, we noted the following:

- Existing policies and procedures for review, verification, and segregation of duties of entry edit and exception reports were not consistently followed.
- Controls over the collections and deposits process did not operate effectively. Specifically, certain collection files did not contain evidence of an independent verifier. Additionally, certain collection files did not contain evidence that the amount received by the bank agreed to the amount recorded in CBP's system of record.

## **EXHIBIT II – Significant Deficiencies in Internal Control over Financial Reporting**

- Controls over the review of refunds prior to disbursement were not operating effectively. Specifically, segregation of duties controls were not consistently enforced, and certain reports were not generated and reviewed in accordance with policies.
- Controls over the review of Single Transaction Bonds were not operating effectively. The system for reviewing the sufficiency of bonds was not implemented until January 2015. Additionally, CBP was unable to provide documentation to support the review of certain Single Transaction Bonds. Certain bonds were insufficient to cover the value of duties, taxes, and fees for the associated entries.
- Controls over the review of the BCA report were not fully implemented during FY 2015. Port personnel did not review all intentional postings on the BCA report on at least a quarterly basis to ensure that intentional postings were removed timely and properly classified. In addition to deficiencies in the design and implementation of controls over the BCA report, we also identified specific instances of non-compliance with policies and procedures over Liabilities for Deposit Accounts, including the incorrect classification of intentional postings to Liabilities for Deposit Accounts after the review had been completed.
- Controls did not exist to ensure that the fines and penalties receivable was correctly recorded, by case, in the system.

### **Cause/Effect:**

Policies and procedures over the review of the edit and exception report, known as the B06, *Weekly List of Rejected/Cancelled Entries Report*, and the daily *Collections and Deposits Report*, were not consistently followed or reinforced in FY 2015. Ports did not always have sufficient contingency plans to ensure segregation of duties in the event of extended employee absences or terminations. Failure to consistently adhere to existing policies and procedures for review and verification of reports may result in a potential misstatement to the balance of taxes, duties, and trade receivables, net and total cash collections on the statement of custodial activities.

Policies and procedures over the review of single transaction bonds were not implemented for the entire fiscal year. After implementation, CBP did not adhere to policies and procedures for the review of Single Transaction Bonds. Failure to consistently adhere to existing policies and procedures for the review of Single Transaction Bonds could lead to loss of revenue due to uncollected duties, taxes, and fees.

CBP did not have processes in place to ensure the timely review of intentional postings on the BCA report. The personnel reviewing the BCA report were often not the same as the personnel reviewing the intentional postings and did not have sufficient resources and information to perform an adequate review. Inadequate controls could result in CBP's failure to identify amounts that are due to the Treasury General Fund.

Controls have not been designed and implemented to ensure the open receivable amount in the system is properly updated for subsequent adjustments (i.e., write-offs) to the assessed penalties and fines initially recorded, which could result in a misstatement to the receivables balance.

### **Criteria:**

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

## **EXHIBIT II – Significant Deficiencies in Internal Control over Financial Reporting**

### **Recommendations:**

We recommend that CBP:

- Institute a periodic monitoring control to ensure that timely reconciliations and reviews are performed.
- Develop contingency plans to ensure adequate segregation of duties in the event of extended employee absences or terminations.
- Update and redistribute guidance to necessary personnel regarding the appropriate CBP Directives and guidance that communicate the steps required for completing control procedures.
- Provide oversight and assistance at the headquarters-level to ensure that port personnel are adhering to procedures.
- Implement monitoring controls and review procedures to ensure case information is accurately updated.

### **II-D. Entity-Level Controls**

#### **Background:**

Entity-level controls are pervasive across an entity. They include the entity's culture, values, and ethics as well as the attitudes, awareness, and actions of management and those charged with governance concerning the entity's internal control and its importance. Entity-level controls are often categorized as control environment, risk assessment, control activities, monitoring, and information and communications, as defined by the *Committee of Sponsoring Organizations* of the Treadway Commission (COSO) (1992 and 2013 versions), and the Government Accountability Office (GAO). These controls must be effective in order to create and sustain an organizational structure that is conducive to reliable financial reporting.

The Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, assessment is also designed to assist with management's evaluation of control effectiveness and the remediation of control deficiencies, in accordance with an OMB approved plan.

The conditions below should be read in conjunction with Comment **I-A**, *Drawback of Duties, Taxes and Fees*, **I-B**, *Information Technology*, and **II-C**, *Entry Process*.

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

During our audit we noted certain control deficiencies and underlying causes that were similar and pervasive across various process areas at CBP. The resulting recommendations, which we provided to correct the deficiencies, are based on improvements needed in management's risk assessment process, communication practices, and its monitoring activities. Accordingly, the entity-level control deficiencies described below apply to CBP as a whole.

#### *Risk Assessment:*

CBP's management has not developed an integrated process for ensuring various offices within the organization coordinated efforts to ensure a coordinated, complete and sufficient entity-wide risk assessment is performed. Specifically, GITC risks to the business process were not

## **EXHIBIT II – Significant Deficiencies in Internal Control over Financial Reporting**

considered. As a result, automated or partially automated events and transactions that may have a greater likelihood of error or lack of controls may not always receive an appropriate level of attention.

### *Information & Communication:*

We identified instances of weaknesses in communication within CBP throughout the audit. While CBP management has a process in place for internal communications, such as monthly remediation meetings with the Chief Financial Officer, improvements are needed to ensure effective and timely communications occur across various offices within the organization, specifically with respect to GITC risks.

### *Monitoring:*

We noted instances where preventative and detective controls were either not designed at a level of precision to identify a significant error, or were not operating effectively. Therefore, there is the risk that an error or combination of errors could go undetected. While CBP management does perform tests of operating effectiveness and verification and validation of corrective action, improvements are needed to ensure the tests of operating effectiveness and/or verification and validation of corrective actions are performed at a sufficient level of detail to properly monitor and assess the progress of remediation efforts.

Specific examples have been provided in **I-A**, *Drawback of Duties, Taxes and Fees*, **I-B**, *Information Technology*, and **II-C**, *Entry Process*.

### **Criteria:**

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

### **Recommendations:**

We recommend that CBP personnel enhance the current process implemented over the entity-wide risk assessment, information & communication, and monitoring of the organization. Specifically, we recommend that CBP personnel strengthen the OMB Circular No. A-123 process throughout the organization by establishing program risk assessments and continuous monitoring processes.

## Index of Financial Reporting and Internal Control Criteria

(Listed Alphabetically by Criteria Source)

Criteria	Reference	Report Exhibit
2014 Code of Federal Regulations (CFR)	Title 19, Volume 1, Section 111.23 (a)(1)-(2)	I-A
	Title 19, Volume 1, Section 113.13 (c)	
	Title 19, Volume 1, Section 113.65 (a)(3)-(4),(b)	
	Title 19, Volume 2, Section 163.4 (a)-(b)	
	Title 19, Volume 2, Section 191.15	
	Title 19, Volume 2, Part 191.38 (a)	
	Title 19, Volume 2, Section 191.51 (b)(1)	
	Title 19, Volume 2, Section 191.92 (d)	
	Title 19, Volume 1, Section 113.15	I-A, II-C
	Title 19, Volume 1, Section 113.26	
AU Section 341, <i>Auditing Accounting Estimates</i>	Internal Control Related to Accounting Estimates, Paragraph .06	II-C
CBP Directive 3710-004B, <i>Refund of Miscellaneous Collections</i>	Section 2.2; Section 5.7.1	II-C
CBP Directive 5610-004B, <i>Resolving Certain ACS Exception and Error Reports</i>	Section 5.1.2; Section 5.4.2; Section 5.5.2; Section 5.6.2; Section 5.11.2	II-C
CBP HB 3700-01B, <i>Drawback Handbook</i>	Chapter 5	I-A
CBP HB 5200-12B, <i>Collections and Deposits Handbook</i>	Section 1.4, Documentation Retention and Reconstruction Requirements	II-C
	Section 3.1, Separation of Duties	II-C
	Section 10.5, Verify Reconciliation of Deposits	II-C
SFFAS No. 7, <i>Accounting for Revenue and Other Financing Sources</i>	Section 53	II-C
The Federal Managers' Financial Integrity Act (FMFIA) of 1982	Section 2 (d)(1)(A)	I-A
GAO/PCIE Financial Audit Manual (FAM)	Section 260.50	II-D

**Index of Financial Reporting and Internal Control Criteria**

<p><i>GAO's Standards for Internal Control in the Federal Government</i></p>	<p>Section OV1.06, Section 1.05</p>	<p>II-D</p>
<p>Internal Automated Commercial Environment Entry Summary Business Rules and Process Documents</p>	<p>6.0 Single Transaction Bonds</p>	<p>II-C</p>
<p>Office of Management and Budget (OMB) Circular No. A-123, <i>Management's Responsibility for Internal Control</i></p>	<p>Policy, paragraph 3; Section I, paragraph 2; Section IV, paragraph 1</p>	<p>I-A, II-C, II-D</p>
	<p>Purpose, paragraph 1</p>	<p>II-C</p>



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


**Appendix A**  
**Management's Comments to the Draft Report**

1300 Pennsylvania Avenue NW  
Washington, DC 20229



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

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

FROM: Jaye M. Williams   
Chief Financial Officer

SUBJECT: Management's Response to the Independent Auditor's Report on  
the U.S. Customs and Border Protection Fiscal Year 2015  
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) 2015 Consolidated Financial Statements, which will be included in our FY 2015 Performance and Accountability Report.

I accept the independent public accounting firm's (KPMG LLP), unmodified opinion on CBP's FY 2015 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 two material weaknesses and the two significant deficiencies identified in the report. The material weaknesses were found in the areas of drawback of duties, taxes and fees and information technology. The Significant Deficiencies were found in the areas of entity-level controls and the entry process. Mission Action Plans (MAPs) outlining CBP's strategy to correct these conditions, have been provided to the U.S. Department of Homeland Security, Office of Financial Management. CBP will continue to work to resolve all 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) 344-2364 or via email at [Jaye.M.Williams@cbp.dhs.gov](mailto:Jaye.M.Williams@cbp.dhs.gov), or Martin N. Finkelstein, Acting Executive Director, Financial Operations Directorate, at (202) 344-1628 or via email at [marty.n.finkelstein@cbp.dhs.gov](mailto:marty.n.finkelstein@cbp.dhs.gov).



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

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**Appendix B**  
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