



# Department of Homeland Security Office of Inspector General

## Management Letter for U.S. Customs and Border Protection's FY 2010 Consolidated Financial Statements





# Homeland Security

MAR 28 2011

## Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

This report presents the management letter for U.S. Customs and Border Protection's (CBP) FY 2010 consolidated financial statements audit. It contains observations related to internal controls that were not required to be reported in the *Independent Auditors' Report* on the financial statements. The independent public accounting firm KPMG LLP (KPMG) conducted the audit of CBP's FY 2010 financial statements and prepared this management letter. Material weaknesses and other significant deficiencies were reported, as required, in KPMG's *Independent Auditors' Report*, dated January 25, 2011. KPMG is responsible for the attached management letter dated March 7, 2011, and the conclusions expressed in it. We do not express opinions on CBP's financial statements or internal control, or provide conclusions on compliance with laws and regulations.

The observations herein have been discussed in draft with those responsible for implementation. We trust this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in cursive script that reads "Anne L. Richards".

Anne L. Richards

Assistant Inspector General for Audits



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036-3389

March 7, 2011

Office of Inspector General and Chief Financial Officer,  
U.S. Department of Homeland Security,  
Washington, DC

Chief Financial Officer,  
U.S. Customs and Border Protection

Ladies and Gentlemen:

We have audited the consolidated balance sheets of the U.S. Customs and Border Protection (CBP), a Component of the U.S. Department of Homeland Security (DHS), as of September 30, 2010 and 2009, and the related consolidated statements of net cost, changes in net position, custodial activity, and the combined statements of budgetary resources (hereinafter, referred to as “consolidated financial statements”) for the years then ended. In planning and performing our audit of CBP’s consolidated financial statements, we considered CBP’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements.

In connection with our fiscal year (FY) 2010 engagement, we considered CBP’s internal control over financial reporting by obtaining an understanding of CBP’s internal controls, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our procedures. 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 (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers’ Financial Integrity Act of 1982* (FMFIA). The objective of our engagement was not to provide an opinion on the effectiveness of CBP’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CBP’s internal control over financial reporting.

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.



We noted certain matters involving internal control and other operational matters that are listed on page one in the Table of Financial Management Comments, and 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. These comments are in addition to the significant deficiencies and material weakness presented in our *Independent Auditors' Report*, dated January 25, 2011 included in the FY 2010 CBP *Annual Financial Report*. A description of each internal control finding, and its disposition, as either a material weakness, significant deficiency, or a financial management comment, is provided in Appendix A. Our findings related to information technology systems have been presented in a separate letter to the Office of Inspector General and the DHS Chief Information Officer.

We would be pleased to discuss these comments and recommendations with you at any time. This report is intended for the information and use of DHS and CBP management, the Office of Inspector General, the OMB, the U.S. Congress, and the Government Accountability Office, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**

Department of Homeland Security  
U.S. Customs and Border Protection  
*Table of Financial Management Comments*  
September 30, 2010

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**FMC 10-01: Automated Commercial System (ACS) deficiency over the accumulation of claims against a drawback bond (NFR No. CBP 10-05)**

ACS does not properly account for bond sufficiency of claims that involve a continuous bond. Specifically, the automated control that prevents a claimant from exceeding the bond amount on file is not operating effectively. As a result, CBP may not have sufficient surety against a drawback over-claim. Also, there is not a manual procedure in place to ensure the sufficiency of bonds.

ACS remains the system of record for drawback claims and bonds. In FY 2010, there has not been a program change within ACS or a manual procedure put in place to ensure bond sufficiency.

*Recommendations:*

We recommend that CBP:

1. Continue with their design and implementation of the Automated Commercial Environment (ACE) to ensure that the drawback module will properly account for bond sufficiency.
2. Implement a manual check, while ACE is in development, by the drawback specialist and technicians to query the bond on file related to the claim and verify that there is a sufficient amount on the bond for the claimant to be paid.

**FMC 10-02: Improper Control Design of “Failed Disbursements Report” (NFR No. CBP 10-07)**

CBP’s internal control over failed disbursements is not properly designed and implemented to detect and correct failed disbursements in a timely manner. Specifically, we noted the following:

- The Failed Disbursements Report was not reviewed during the first quarter of fiscal year 2010.
- CBP did not establish a clear administrator of the report for the entire duration of the fiscal year. Although the report is reviewed and relevant individuals are notified of the errors, sufficient follow-up is not always performed to determine if the errors are resolved. There were 103 stale transactions that remain unresolved on the report from previous fiscal years as of June 14, 2010.
- Transactions dating back to FY 2005 remained unresolved on the report.

*Recommendations:*

We recommend that CBP:

1. Prepare and implement formal National Finance Center (NFC) Accounts Payable Branch policy and procedures for working and monitoring the items on the Failed Disbursements Report, which includes a performance measure of having items resolved within 30 days from the date they appear on the report.
2. Resolve the aged items on the Failed Disbursements Report by February 28, 2011.

**FMC 10-03: Lack of controls over timely processing of goods and services received (*NFR No. CBP 10-08*)**

Contracting Officer's Technical Representatives (COTRs) and goods receivers do not consistently enter goods receipts and service entry sheets timely into SAP, CBP's financial reporting system. As a result, CBP must estimate accounts payable for goods or services received, but not entered into SAP. Although this estimation process is typically accurate, as evidenced by the search for unrecorded liabilities performed by CBP at the beginning of each fiscal year, CBP lacks controls over the process of recording the receiving of goods and services timely throughout the year. Specifically, we noted 32 instances out of 425 sample items selected for March 31, 2010 operating expenses testwork where the receiving of goods or services was not recorded in the proper month.

In order to capture goods receipt/service entries not entered timely, CBP uses both workflow messages and an on-demand SAP "parked invoice" report available to all receiving officials. However, these procedures are not performed until after the receipt of an invoice, which is typically after the receipt of goods or services.

We noted instances in which CBP disbursed payments outside of its normal process in SAP through wire transfers because the goods receipt/expense was not processed timely in SAP, largely due to administrative reasons with contracts. These transfers are made outside of SAP because the system will not allow disbursements until it has performed a three-way match between obligation/purchase order, goods receipt, and invoice. COTRs approve all wire transfers before disbursements and these wire transfers are processed outside of SAP in order to receive discounts, avoid late fees/interest, and/or make payment on invoices related to purchase orders awaiting amendment.

*Recommendations:*

We recommend that CBP:

1. Incorporate the following into the existing standard operating procedures:
  - Provide a monthly Parked Invoice Report to the Program Offices.
  - Perform a weekly review of parked invoices by the NFC.
  - Contact the program offices to remind them of the need to enter goods receipt information timely via email, meetings and conference calls.
2. Monitor the results of the annual Self Inspection worksheets to determine additional training needs.
3. Continue outreach efforts that provide guidance to receiving officials through conference calls, newsletters, etc.

**FMC 10-04: Weaknesses in the monitoring and review process over the completion of Fines, Penalties, and Forfeitures (FP&F) cases (*NFR No. CBP 10-10*)**

We completed testwork related to the Action Due Report (F05) report at eleven ports with FP&F offices. Improvements have been made to the F05 report review process; however, we noted one instance where a port did not begin retaining the F05 report until January 2010. Therefore, evidence of review of the F05 could not be verified prior to January 2010 at this port.

*Recommendations:*

We recommend that CBP:

1. Issue a memorandum to the Field Offices and Ports informing them of the requirement to retain copies of weekly F05 Reports for two years from the date the report was generated. Inform FP&F officers that they are accountable for complying with this policy.
2. Issue an update to the Seized Asset Management and Enforcement Procedures Handbook.
3. Hold a conference call for FP&F officers and supervisors to remind them of the requirement to run the F05 Report on a weekly basis and to retain for two years from the date the report was generated for self inspection purposes.

**FMC 10-05: Weakness in the review of weekly/monthly Entry exception/edit reports (NFR No. CBP 10-11)**

We statistically selected eleven ports at which to perform control testwork over the entry process. Based on the results of testwork performed at the ports, we noted the following instances of non-compliance with CBP Directive 5610-004B, CBP Directive 5610-006, and Title 19 of the Code of Federal Regulations (CFR):

- Evidence that the issues on the reports were resolved according to the applicable Directive could not be verified for the following:
  - a. B06 *Rejected/Cancelled Entries Report* at one port, including supervisory review;
  - b. B07 *Unpaid/Rejected Entries Report* at one port;
  - c. B08 *Entry Releases with No Follow-up Summaries Report* at one port;
  - d. B84 *Budget Clearing Account Report* at three ports;
  - e. S21 *Weekly Deletion Report* at one port; and
  - f. Q07 *Unreported Quota Report* at two ports, including supervisory review.
- Lack of segregation of duties at one port; the supervisory review of the B06 report was conducted by the same person that processed the cancellations.
- Evidence of segregation of duties could not be verified at one port related to the review of deleted entries on the S21 report.
- One port did not properly work entries on the B08 report less than two weeks old because it allowed an importer 15 working days to submit all entry summaries and/or cancellation requests instead of the 10 days as prescribed in 19 CFR Section 142.12(b).

*Recommendations:*

We recommend that CBP:

1. Reinforce the importance of the requirements of CBP Directive 5610-004B, published September 24, 2009, through written communications and, if necessary, through various training modes to ensure that the reports are being reviewed in accordance with established policy. Those reports consist of the B06, B07, B08, B84, and Q07.
2. Reinforce the importance of the requirement of CBP Directive 5610-006 through updating the directive, issuing written communications and, if necessary, providing training to ensure that the S21 and B06 are properly reviewed and verified by the appropriate CBP officials.

**FMC 10-06: Lack of Implementation of Controls over Determining Capital Leases (NFR No. CBP 10-13)**

CBP can enter into three different types of leases, including personal property, real property, and Office of Information Technology (OIT) property (e.g., software/technology). CBP implemented a General Services Administration checklist to determine if a real property lease should be classified as capital or operating for both proprietary financial reporting purposes using the criteria from Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant and Equipment*, and for budgetary purposes using the criteria from OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*. However, CBP has not implemented such a checklist for personal property leases or OIT property leases. Therefore, while CBP has partially developed a control over the classification of leases, this control has not been implemented for all lease types. Thus, there is no clear auditable documentation trail (for all lease types), such as a checklist, evidencing how CBP determines if a lease should be classified as capital or operating, considering the four capital lease criteria provided by SFFAS No. 6 and the six capital lease criteria provided by OMB Circular No. A-11.

*Recommendation:*

We recommend that the CBP Office of Administration, Financial Operations, update CBP Directive 5320-032C to reflect a detailed checklist for all lease types differentiating between operating and capital leases for both financial reporting under SFFAS No. 6 and budgetary accounting under OMB Circular No. A-11.

**FMC 10-07: Lack of formal policies over review of Importer Self-Assessment (ISA) Annual Notification Letters (NFR No. CBP 10-17)**

Based on our inquiry and review of CBP's Mission Action Plan (MAP), *Revenue and Receivables Management – Classification and Appraisal*, we noted CBP is formalizing the requirements related to the review of the ISA Annual Notification Letters. In our FY 2010 audit, we noted that internal review checklists were completed for CBP's review of Annual Notification Letters selected in our sample; however, CBP is currently following draft procedures over the completion of the checklists, as the finalized Standard Operating Procedures (SOPs) have not been approved. The checklist is one of the tools used to conclude on whether a company is eligible for continued participation in the ISA program. The elements described in the *Revenue and Receivables Management – Classification and Appraisal* MAP were not implemented as of September 30, 2010.

*Recommendation:*

We recommend that CBP finalize, approve and implement the existing draft SOPs for the ISA program and continually update them to ensure effective management of the ISA program.

**FMC 10-08: Failure to complete supervisory review of drawback claims (NFR No. CBP 10-18)**

We performed procedures over controls related to supervisory reviews of drawback claims for the first three quarters of the fiscal year. We reviewed 54 drawback claims from various ports that met the criteria for a supervisory review. During our testing, we noted that evidence of supervisory review, in accordance with the Drawback Handbook, could not be verified for three claims that met the supervisory review criteria.

*Recommendation:*

We recommend that CBP reinforce the importance of supervisory review by issuing written communications and updating existing drawback policy guidance to ensure that proper review of statistical (STAT) and first-time (FIRST) drawback claims take place.

**FMC 10-09: Certification of Refund and Drawback Payments (NFR No. CBP 10-19)**

In the event that the chief/supervisor does not certify a payment, ACS defaults to automatically indicate that the Port Director certified a given payment, without the Port Director's actual certification. CBP has designed and implemented a mitigating control to manually review, verify, and certify payments on the Check Proof Listing. However, this control is not codified in Standard Operating Procedures.

*Recommendation:*

We recommend that CBP update and publish the ACS Refund Certification Procedures to provide the necessary guidance to the field to ensure all necessary verifications are completed prior to issuance of a payment.

**FMC 10-10: Failure to review the D28 Alert Report (NFR No. CBP 10-21)**

During our third quarter testing, we selected a sample of 21 Drawback Auto/Deemed Liquidation (D28) Alert Reports at each drawback port for review. We noted four instances in which evidence of review of the D28 Alert Reports could not be verified.

*Recommendation:*

We recommend that CBP update the drawback policy with more specific guidance on how to review and resolve items on the D28 Alert Report and reinforce the importance of reviewing the D28 Alert Report by issuing written communications to each of the drawback centers.

**FMC 10-11: Deficiencies in CBP's Controls over the application of benefits to Customs-Trade Partnership Against Terrorism (C-TPAT) Partners (NFR No. 10-23)**

When testing the control surrounding the application of C-TPAT benefits to importer partners, we selected a sample of 45 partners and noted one C-TPAT partner's benefits were suspended in C-TPAT's Web Portal as the partner failed validation; however, this C-TPAT partner was still receiving benefits through the Automated Targeting System (ATS). Upon auditor inquiry, CBP's C-TPAT office and the ATS team verified that the benefits status for that partner was not current in the ATS database due to an interface error between C-TPAT's Web Portal and ATS. CBP determined this error could have affected any partners whose benefit status changed since the last quarterly reconciliation between the Web Portal and ATS. To prevent this issue from occurring through the remainder of the year, the ATS team developed scripts to run daily to ensure that all benefits designated by the Web Portal link to the benefits in ATS.

*Recommendations:*

We recommend that CBP:

1. Continue the development of an automated script to interface the Tier Level Benefits in the C-TPAT Portal with ATS. This automated interface will replace the daily manual script currently performed by the ATS team.
2. Conduct bimonthly audits, by C-TPAT headquarters, of Tier Level Benefits in C-TPAT Portal and ATS. This audit will compare the benefits for each Importer of Record between ATS and C-TPAT to validate that ATS reflects the correct level of benefits as designated by the C-TPAT field director or supervisor that applied them.

**FMC 10-12: Deficiencies in CBP's controls over calculating the validity and collectability of non-entity Taxes, Duties, and Trade Receivables, net (NFR No. CBP 10-28)**

While conducting procedures over a sample of 45 fine and penalty (F&P) cases related to CBP's collectability and validity (C&V) process, we noted the following:

- For 16 F&P cases, the "Validity and Collectability Analysis Checklists" completed at the port level were not properly completed as the "Validity and Collectability Analysis Checklists" did not match checklist guidelines and supporting documentation. We noted that 15 of the port level errors were corrected by the NFC Staff Accountant's review of the checklists when completing the "results summary," while one port level error was not corrected by the review.
- For one F&P case noted in the above condition, the collectible amount was applied to the fine or penalty instead of to the loss of revenue first on the Collectability & Validity Checklist. The error was not corrected by the Staff Accountant during completion of the "results summary" and therefore, the error flowed through to the calculation of the collectability and validity percentages. However, this error had no impact on the amount recorded for Taxes, Duties, and Trade Receivables, net.
- For two F&P cases, the information documented in the "Results and Analysis Spreadsheet" did not match the applicable "results summary." Therefore, CBP used incorrect amounts to calculate the validity and collectability percentages by .25 percent, thus impacting the amount recorded for Taxes, Duties, and Trade Receivables, net.

*Recommendations:*

We recommend that CBP:

1. Modify its review of the "Collectability and Validity Analysis Checklists" by preparing a calculation spreadsheet at the time the checklist review is conducted.
2. Modify its procedures informing port office(s) of errors in their quarterly checklists.
3. Reinforce guidance and importance of the checklists to ensure proper completion of the "Collectability and Validity Analysis Checklists."

**FMC 10-13: Deficiencies in CBP's Seized Inventory Process (NFR No. CBP 10-33)**

We statistically selected ten seized property locations in which to observe the annual inventory and noted the following at the seized inventory vaults:

*Reporting:*

- For one seized item, the original shelf mass including packaging was not initially input into the Seized Assets and Case Tracking System (SEACATS). Instead, the seized item was only input into SEACATS at the net mass. As such, the mass measured during the

inventory was significantly different from the mass reported in SEACATS. Due to the original incorrect entry into SEACATS, the percentage difference between SEACATS and the inventoried weight was greater than 2%. As the item was heroin, a hard narcotic, the difference should have been reported to Internal Affairs. However, the inventory counters stated that the difference was not going to be reported to Internal Affairs.

- One seized item on the inventory count sheet listed three boxes; however, only two boxes were present in the vault. CBP was unable to provide documentation to explain the difference.

*Security:*

- One employee neglected to sign into the log-in sheet while entering the vault.
- One employee signed into the log-in sheet alone on five different occasions.
- A key to a hard narcotics cage was placed in an unsecure and open location within the vault.

Upon review of the inventory completion packages, we noted the following:

- Four instances in which the amounts counted during the annual inventory were not properly updated in SEACATS.
- Three instances in which CBP did not record the inventory date in SEACATS following the inventory to reflect that the item had been counted, as required by the CBP Inventory Instructions.

*Recommendations:*

We recommend that CBP:

1. Issue a memorandum to the Field Offices and ports reminding them of the requirement regarding the vault access and limitations as it pertains to the temporary and permanent storage facilities as outlined in the Seized Asset Management and Enforcement Procedures Handbook (SAMEPH) Sections 2.5.1 and 2.5.2.
2. Issue a memorandum to the Field Offices and Ports reminding them of the requirement to report discrepancies outside of the allowable weight variance to the Joint Intake Center as outlined in Section 2.4.1.8.b of the SAMEPH.
3. Remind Seized Property Supervisors and FP&F Officers during the FP&F Advanced training scheduled in December 2010 of the applicable requirements.
4. Remind the field of the requirement to comply with policies as stipulated in the SAMEPH.
5. Work with the Office of Administration to update the inventory instructions to outline specific details and address any ongoing issues and concerns.

**FMC 10-14: Improper Payment of Interest (NFR No. CBP 10-34)**

During our FY 2010 procedures over the Prompt Payment Act, we selected 58 cash disbursements and noted two instances in which CBP entered incorrect payment terms in SAP. For the two exceptions identified, CBP incorrectly coded the payment terms as “Payable immediately Due net,” rather than as “Within 30 days Due net.” There was no indication in the obligating document that a payment term of less than net 30 existed. As a result, the system designated the payment due date as the same day these invoices were entered into SAP and interest began to accrue prior to 30 days.

After the obligations were entered into SAP, CBP's review process did not detect the incorrect vendor payment terms. As a result, CBP made timely principal payments to vendors, but paid interest where no interest was due.

*Recommendations:*

We recommend that CBP:

1. Identify all vendor records with a Z0002 code ("Payable immediately Due net"), determine if it is the correct code, and take corrective action for each vendor record that is coded incorrectly.
2. Update the vendor ID procedures to include the verification of the code for payment terms.
3. Run a semi-annual report to identify and verify vendor records with a Z0002 coding. This report should be run, reviewed, and vendor records updated.
4. Update the work instructions in SAP to include guidance related to the selection of payment terms for miscellaneous obligating documents (Bills of Lading and Standard Form-182 Training documents).

**FMC 10-15: Insufficient Documentation of Statement on Auditing Standards (SAS) No. 70 review (NFR No. CBP 10-35)**

CBP management should review the Service Auditor's *United States Department of Agriculture's (USDA) SAS No. 70 Report on National Finance Center General Controls* annually, in order to detect control weaknesses in USDA's general control environment that could lead to potential misstatements to the financial statements. Through this review, CBP gains an understanding of the control environment surrounding USDA's payroll processing system, and how it influences CBP's internal control environment. CBP was unable to provide written evidence documenting the review of USDA's annual SAS No. 70 report for the fiscal year 2010, and therefore did not document a response to any deficiencies identified by USDA's service auditor (if applicable).

*Recommendation:*

We recommend that CBP document its review of the USDA SAS No. 70.

**FMC 10-16: Deficiencies in CBP's Office of Air and Marine (OAM) Inventory Process (NFR No. CBP 10-40)**

We selected four OAM sites, from a total of 26 sites, in which to observe the physical inventory, as well as obtained signed certifications for the OAM sites not visited. While at these four sites, we selected at least 45 items to perform test counts. In addition, we selected five sites in which to obtain fifteen backlog inventory items identified during the physical inventory for each site. As a result, we noted the following:

Physical Inventory:

- Three items selected from the floor were not recorded in Computerized Aircraft Reporting and Material Control System (CARMAC), nor were they recorded as write-in items from the inventory. In accordance with the SOP, these items should have been recorded on the Inventory Adjustments Report – Transactions in order to be properly input into CARMAC upon completion of the inventory. However, these items were not reported on the Inventory Adjustments Report – Transactions and therefore, were not included in the final inventory count.

- Two items selected from the floor were recorded incorrectly on the Inventory Adjustments Report – Transactions. Specifically, the actual inventory count amount noted on the count sheets was recorded incorrectly on the Inventory Adjustments Report – Transactions, which understated gains on this report.
- Three instances in which the amounts counted during the physical inventory were not accurately recorded on the count sheets. Two of these items were selected from the count sheet and the third item was selected from the floor.
- Two items selected as part of the backlog sample were not accurately recorded to the “Inventory Adjustment Report – Non-Reportable.” As the inventory count recorded was not accurate, the adjustments were understated.
- Five items selected did not undergo a second count by DS2, although the first count of the inventory item did not agree to the amount recorded in CARMAC. In accordance with the SOP, a second count is required when a discrepancy is noted between the inventory count and CARMAC.

**Certification:**

- One instance in which CBP certified to the existence of the same inventory in two different locations. Specifically, the certified Repairs and Transfers amount from one site was included in the Repairs and Transfers amount from another, unrelated site.

**Reporting:**

Upon review of the 9/30/10 OAM Adjusting Journal Entries (AJE), we noted the following:

- CBP did not include certain immaterial inventory items in its inventory balance. Specifically, CBP excluded the amounts reported on the “Inventory Adjustment Report – Non-Reportable” and the “Inventory Adjustment Report – Transactions” from the 9/30/10 CARMAC AJE.

**Recommendation:**

We recommend that CBP monitor and evaluate the effectiveness of its internal controls over the physical air inventory.

**FMC 10-17: Inability to Support the Injured Domestic Industries (IDI) Liability (NFR No. CBP 10-41)**

During our testwork over the IDI liability as of September 30, 2010, CBP was unable to provide detailed documentation at the individual dumping case level to support the entire amount of the liability reported in its financial statements. In fiscal year 2006, CBP began tracking amounts held due to pending litigation on the *Continued Dumping and Subsidy Offset Act of 2000* (CDSOA) annual reports. No funds were withheld due to pending litigation prior to fiscal year 2006. The amounts held due to pending litigation reported on the CDSOA annual reports and the amount of entries liquidated in FY 2010, which are set to be paid in FY 2011, sum to an amount below the IDI liability reported. CBP was unable to provide detailed documentation to support the remaining amounts recorded in its general ledger.

**Recommendation:**

We recommend that CBP research and develop policy to ensure all amounts recorded in the general ledger for the IDI liability are fully supportable.

U.S. Customs and Border Protection  
*Crosswalk – Financial Management Comments to Active NFRs*  
 September 30, 2010

Component	NFR No.	Description	Disposition*				Page	No.
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CBP	10-14	Deficiencies in the In-Bond Process		E				
CBP	10-15	Weaknesses in CBP's Process related to asset disposals as of 4/30/2010		C				
CBP	10-15b	Weaknesses in CBP's Process related to asset disposals as of 7/31/2010 and 9/30/2010		C				
CBP	10-16	Insufficient Retention Period for Documents that Support Drawback Claims	A					
CBP	10-17	Lack of formal policies over review of Importer Self-Assessment Annual Notification Letters				5	10-07	
CBP	10-18	Failure to complete supervisory review of drawback claims				5	10-08	
CBP	10-19	Certification of Refund and Drawback Payments				6	10-09	
CBP	10-20	Detection of Excessive Drawback Claims	A					

U.S. Customs and Border Protection  
 Crosswalk – Financial Management Comments to Active NFRs  
 September 30, 2010

Component	NFR No.	Description	Disposition*				
			Independent Auditors' Report			FMC	
			Material Weakness	Significant Deficiency	Non-Compliance	Page	No.
CBP	10-21	Failure to Review the D28 Alert Report				6	10-10
CBP	10-22	Weaknesses in Controls over Automated Journal Entries and Misstatement of Liabilities related to Injured Domestic Industries		B			
CBP	10-23	Deficiencies in CBP's controls over the application of benefits to C-TPAT Partners				6	10-11
CBP	10-24	Weaknesses in CBP's Process Related to Recording Construction Percentage of Completion Amounts		C			
CBP	10-25	Improper Settlement of Assets, including Untimely Capitalization of Assets from Construction-in-Progress (CIP) as of 4/30/10		C			
CBP	10-25b	Improper Settlement of Assets, including Untimely Capitalization of Assets from CIP as of 7/31/10 and 9/30/10		C			
CBP	10-26	Oversight of financial reporting issues		B			
CBP	10-27	Lack of supporting documentation for intra-departmental eliminating journal entries related to Operating Expenses		B			
CBP	10-28	Deficiencies in CBP's controls over calculating the validity and collectability of non-entity Taxes, Duties, and Trade Receivables, net				7	10-12
CBP	10-29	Management Oversight of PP&E		C			
CBP	10-30	Weaknesses identified in the Bonded Warehouse and Foreign Trade Zone processes and procedures		E			
CBP	10-31	Inadequate Oversight of Trade Compliance Measurement		E			
CBP	10-32	Control Deficiencies over Manual Journal Entries		B			
CBP	10-33	Deficiencies in CBP's Seized Inventory Process				7	10-13
CBP	10-34	Improper Payment of Interest				8	10-14
CBP	10-35	Insufficient Documentation of SAS No. 70 review				9	10-15
CBP	10-36	Weaknesses in CBP's process related to asset additions and classification of transactions as of 7/31/10 and 9/30/10		C			
CBP	10-37	<i>Number not Used</i>	<i>Not Applicable</i>				
CBP	10-38	<i>Number not Used</i>	<i>Not Applicable</i>				
CBP	10-39	Untimely deobligation of Undelivered Orders		D			
CBP	10-40	Deficiencies in CBP's OAM Inventory Process				9	10-16
CBP	10-41	Inability to Support the IDI Liability				10	10-17

U.S. Customs and Border Protection  
*Crosswalk – Financial Management Comments to Active NFRs*  
September 30, 2010

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\*Disposition Legend:

FMC Financial Management Comment

The following links to the applicable sections of the Independent Auditors' Report:

- A Drawback of Duties, Taxes, and Fees
- B Financial Reporting
- C Property, Plant, and Equipment
- D Inactive Obligations
- E Entry Process

U.S. Customs and Border Protection  
*Status of Prior Year Findings*  
 September 30, 2010

Component	NFR No.	Description	Disposition	
			Closed	Repeat (10 NFR No.)
CBP	09-01	Verification of Check Proof Listing and Certification of Payments		CBP-10-19
CBP	09-02	Detection of Excessive Drawback Claims		CBP-10-20
CBP	09-03	Insufficient Retention Period for Documents that Support Drawback Claims		CBP-10-16
CBP	09-04	ACS deficiency over the accumulation of claims against a drawback bond		CBP-10-05
CBP	09-05	Deficiencies in the In-Bond Process		CBP-10-14
CBP	09-06	FFMIA - Lack of system integration and compliance with the USSGL at the transaction level related to Air and Marine Operation (AMO) inventory		CBP-10-02
CBP	09-07	ACS deficiencies over non-entity Accounts Receivable and CBP's ability to effectively monitor collection actions		CBP-10-04
CBP	09-08	ACS Limitations – Review of Prior Related Drawback Claims and Selectivity for Underlying Consumption Entries		CBP-10-03
CBP	09-09	<i>Number not used</i>	<i>Not applicable</i>	
CBP	09-10	<i>Number not used</i>	<i>Not applicable</i>	
CBP	09-11	<i>Number not used</i>	<i>Not applicable</i>	
CBP	09-12	Failure to complete supervisory review of drawback claims		CBP-10-18
CBP	09-13	<i>Number not used</i>	<i>Not applicable</i>	
CBP	09-14	<i>Number not used</i>	<i>Not applicable</i>	
CBP	09-15	Weaknesses identified in the Bonded Warehouse and Foreign Trade Zone process and procedures		CBP-10-30
CBP	09-16	Weakness in the monitoring, review, and oversight process over the completion of FP&F cases		CBP-10-10
CBP	09-17	Inadequate Oversight of Entry Summary Compliance Measurement		CBP-10-31
CBP	09-18	Weakness in the review of weekly/monthly Entry edit reports		CBP-10-11
CBP	09-19	<i>Number not used</i>	<i>Not applicable</i>	
CBP	09-20	<i>Number not used</i>	<i>Not applicable</i>	
CBP	09-21	<i>Number not used</i>	<i>Not applicable</i>	
CBP	09-22	<i>Number not used</i>	<i>Not applicable</i>	
CBP	09-23	Untimely deobligation of inactive obligations		CBP-10-01, CBP-10-39
CBP	09-24	Improper settlement of assets, including untimely capitalization of assets from CIP		CBP-10-25, CBP-10-25b
CBP	09-25	<i>Number not used</i>	<i>Not applicable</i>	
CBP	09-26	<i>Number not used</i>	<i>Not applicable</i>	
CBP	09-27	<i>Number not used</i>	<i>Not applicable</i>	
CBP	09-28	Miscellaneous seized inventory findings		CBP-10-33
CBP	09-29	Lack of formal policies over review of Importer Self-Assessment annual notification letters		CBP-10-17
CBP	09-30	Weaknesses in CBP's processes related to asset additions		CBP-10-12, CBP-10-36
CBP	09-31	<i>Number not used</i>	<i>Not applicable</i>	
CBP	09-32	<i>Number not used</i>	<i>Not applicable</i>	
CBP	09-33	Weaknesses in recording Facilities Management &		CBP-10-24 (in part)

U.S. Customs and Border Protection  
*Status of Prior Year Findings*  
 September 30, 2010

Component	NFR No.	Description	Disposition	
			Closed	Repeat (10 NFR No.)
		Engineering (FM&E) Tactical Infrastructure (TI) CIP		
CBP	09-34	Misstatement of the 3/31/09 Secure Border Initiative (SBI) CIP	X	
CBP	09-35	Lack of Controls over Capital Leases		CBP-10-13
CBP	09-36	Misstatement of the 3/31/09 Inventory and Related Property, Net	X	
CBP	09-37	Lack of controls over the timely processing of goods and services received		CBP-10-08
CBP	09-38	Weakness in CBP's management review of the financial statements	X	
CBP	09-39	Weaknesses in CBP's assessment and identification of new/relevant financial reporting issues		CBP-10-26
CBP	09-40	Management oversight of PP&E		CBP-10-29
CBP	09-41	Weaknesses in accounting for the SBInet program	X	
CBP	09-42	Weaknesses in CBP's process related to asset disposals/retirements		CBP-10-15, CBP-10-15b
CBP	09-43	Weaknesses in CBP's classification of PP&E transactions		CBP-10-12, CBP-10-36
CBP	09-44	Weakness in CBP's management review of contracts	X	
CBP	09-45	Deficiencies in CBP's controls over calculating the validity and collectability of non-entity Taxes, Duties, and Trade Receivables, net		CBP-10-28
CBP	09-46	Deficiencies in CBP's controls over the application of benefits to C-TPAT Partners		CBP-10-23
CBP	09-47	Weaknesses in accounting for Imputed Financing	X	

U.S. Customs and Border Protection  
*Management Response to the Draft Management Letter*  
September 30, 2010

1300 Pennsylvania Avenue NW  
Washington, DC 20229



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

**MAR 04 2011**

MEMORANDUM FOR: Anne L. Richards  
Assistant Inspector General for Audits  
Department of Homeland Security

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

SUBJECT: Management Response to Management Letter Report on U.S.  
Customs and Border Protection's Fiscal Year 2010 Consolidated  
Financial Statements

On behalf of U.S. Customs and Border Protection (CBP), I am responding to the draft report entitled, "*Management Letter for U.S. Customs and Border Protection's Fiscal Year 2010 Consolidated Financial Statements.*"

We have reviewed and concurred with all weaknesses contained in the draft report. Mission Action Plans (MAPs) outlining CBP's strategy to correct the conditions we concurred with in the draft report will be prepared and provided to KPMG. CBP will continue to work to resolve all auditor identified weaknesses.

CBP appreciates the opportunity to review this year's report and looks forward to continuing our professional auditing relationship with your office. If you have any questions or would like additional information, please contact me at (202) 344-2300, or a member of your staff may contact Mari Boyd, Executive Director, Financial Operations, at (202) 344-2364.

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

Deborah J. Schilling

Attachments

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