

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

Management Letter for U.S. Customs and Border
Protection's FY 2011 Consolidated Financial
Statements





Homeland
Security

MAR 28 2012

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) fiscal year (FY) 2011 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 2011 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 27, 2012. KPMG is responsible for the attached management letter dated March 14, 2012, 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 management officials. 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



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March 14, 2012

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, 2011 and 2010, and the related consolidated statements of net cost, changes in net position, and 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) 2011 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*. 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 27, 2012, included in CBP's *Fiscal Year 2011 Performance and Accountability 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 DHS 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
Financial Management Comments
September 30, 2011

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FMC 11-01: Certification of Refund and Drawback Payments (NFR No. CBP-11-01)

In the event that the Chief / Supervisor does not certify a payment, the Automated Commercial System (ACS) is defaulted 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 the Standard Operating Procedures.

Recommendation:

Publish the ACS Refund Certification Procedures, which will provide guidance to the field to ensure all necessary verifications are completed prior to issuance of a payment.

FMC 11-02: Automated Commercial System Deficiency over the Accumulation of Accelerated Payments Against a Drawback Bond (NFR No. CBP-11-03)

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 will not have sufficient surety against a drawback over claim. Additionally, manual procedures are not in place to ensure the sufficiency of bonds.

ACS remains the system of record for drawback claims and bonds. In FY 2011, there has not been a program change within ACS or a manual procedure put in place to ensure the sufficiency of bonds.

Recommendation:

Develop a compensating control that will address this noted system deficiency to ensure the Agency's financial risk exposure is minimized.

FMC 11-03: Lack of Controls over Timely Processing of Goods and Services Received (NFR Nos. CBP-11-10 and CBP-11-10b)

During FY 2011, we reviewed statistical samples totaling 641 operating expense type transactions. In 54 transactions, the receipt of goods or services was not recorded in the proper period.

Contracting Officer's Technical Representatives (COTRs) and goods receivers did not consistently enter goods receipts and service entry sheets timely into Systems, Applications and Products (SAP), CBP's financial reporting system. As a result, at year end, 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 receipt of goods and services timely throughout the year.

In order to capture goods receipt and service entries not entered timely, CBP uses both workflow messages and an on-demand SAP "parked invoice" report available to all receiving officials. A

workflow message is sent to the goods receiver when an invoice is input into SAP without a corresponding goods receipt. In addition, if this message is not addressed within five days, a subsequent message is sent to a budget official. CBP's Commercial Accounts Section works the "parked invoice" report weekly and corresponds with program offices to resolve open items. In addition, CBP headquarters program level officers are provided the "parked invoice" report on a monthly basis, which allows them to monitor the items outstanding for their program office. These officials are responsible for distributing the report to their subordinate offices for action and implementing varying levels of review procedures to ensure items are resolved. However, these procedures are not performed until after the receipt of an invoice, which is typically after the receipt of goods or services.

Recommendations:

1. Continue outreach efforts that provide guidance to receiving officials through conference call, newsletters, etc.
2. Monitor the results of the annual Self Inspection worksheets to determine additional training needs.
3. Provide program offices with tools to monitor receiving progress, which include:
 - Monthly "Parked Invoice" Report
 - Weekly review of parked invoices by the National Finance Center (NFC)
4. Issue guidance targeted at Contracting Officers (CO) and COTRs that includes the timely receipt, testing and acceptance of supplies and services.
5. Develop a strategy to communicate the implementation of the guidance to individuals responsible for the timely receipt of supplies and services.

FMC 11-04: Weaknesses in the Monitoring and Review Process over Fines, Penalties, and Forfeiture (FP&F) Cases (NFR No. CBP-11-11)

For 2 of the 11 selected Ports of Entry, the FP&F Office was unable to provide evidence that the F05, Action Due Report, was generated and reviewed for the weeks selected for testing.

- At one location, the port was unable to provide copies of the F05 report for one of the two weeks selected for testwork.
- At one location, the port was unable to provide copies of the F05 report for the two weeks selected for testwork.

Recommendation:

Utilize the auto distribution mechanism created by the Fines, Penalties and Forfeitures Division to distribute, via email, individualized F05 Action Due Reports on a weekly basis to each respective FP&F officer to review and monitor cases, and track cases nearing the statute of limitations.

FMC 11-05: Lack of Implementation of Controls over Determining Classification of Leases (NFR No. CBP-11-12)

CBP does not have a formal requirement to retain documentation to support the evaluation of all leases as operating or capital. Therefore, there is no clear auditable documentation evidencing how CBP determines if a lease should be classified as capital or operating for all lease types.

Recommendations:

It is recommended that the Office of Administration (OA)-Asset and Administrative Management Division (AAMD) work in conjunction with OA-Financial Operations, OA-Procurement, and the NFC in the development of materials, such as the personal property leasehold classification checklist (currently being worked on through the NFC). Additionally, OA-AAMD should work with OA-Financial Operations, OA-Procurement, and the NFC to develop processes and procedures to require documents (such as leasehold agreements, and the classification checklist) to be uploaded into SAP.

FMC 11-06: Weaknesses in the Review of Weekly Entry Edit / Exception Reports (NFR No. CBP-11-13)

During testwork performed at 11 statistically selected Ports of Entry, the following instances of non-compliance with CBP Directive 5610-006A, *Entry Deletion and Entry or Entry Summary Cancellation*, and CBP Directive 5610-004B, *Resolving Certain ACS Exception and Error Reports*, were noted:

- Evidence that the issues on the reports were resolved according to the applicable Directive could not be verified for the following:
 - a. B06, *ACS List of Rejected/Cancelled Entries Report*, at one port.
 - b. S21, *Cargo Selectivity Weekly Selectivity Delete Report*, at one port.
- Proper segregation of duties could not be confirmed at one port related to the review of deleted entries on the S21 Report.

Recommendations:

1. Reinforce the importance of the requirements of CBP Directive 5610-004B, published September 24, 2009, through written communications and, if necessary, targeted efforts at noncompliant ports to ensure that the B06 report is being reviewed in accordance with established policy.
2. Reinforce the importance of the requirements of CBP Directive 5610-006A, published June 10, 2011, through written communications and, if necessary, providing targeted training to ensure that the S21 is properly reviewed and verified by the appropriate CBP officials.

FMC 11-07: Lack of Evidence of Review of the Drawback Auto / Deemed Liquidation (D28) Alert Report (NFR No. CBP-11-14)

During testing at the drawback centers, a sample of 30 D28 Alert Reports was selected across all four centers for review. Eight instances were identified in which evidence of review of the D28 Alert Reports could not be verified.

Recommendation:

Update the drawback policy with more specific guidance on how to review and resolve items on the D28 report. Reinforce the importance of reviewing the D28 report by issuing written communications to each of the drawback centers.

FMC 11-08: Deficiencies in the Public Financial Disclosure Reporting Process (NFR No. CBP-11-17)

During testwork over a sample of 45 employees who filed SF-278, Executive Branch Personnel Public Financial Disclosure Reports, in FY 2011, the following deficiencies were identified:

- Three incumbent employees did not file SF-278's by the June 15, 2011 extended deadline or the employee's further extension, if granted.
- One new employee did not file the SF-278 within 30 days of their date of hire.
- Evidence of completion for one employee's SF-278 was unable to be provided.
- Nineteen of the SF-278's were not reviewed within 60 days of the date of filing.

Recommendations:

Ensure all employees who need access to Financial Disclosure Management (FDM) are granted proper access prior to the FY 2012 filing date. In addition, ensure that FDM is properly implemented to facilitate timely review of the SF-278's.

FMC 11-09: Deficiencies in the Performance Management Program (NFR No. CBP-11-18)

During testwork over a sample of 45 Senior Executive Service (SES) performance plans, the following deficiency was identified:

- One employee did not complete an initial or a progress review.

During testwork over a sample of 45 non-SES supervisory employee performance and appraisal plans, the following deficiencies were identified:

- Evidence of completion for one employee's performance and appraisal plan was not received at the time of testwork.
- Evidence of completion for two employees' goal setting sections of the performance and appraisal plans were not received at the time of testwork.
- One employee's mid-year review meeting did not occur and a reasonable explanation was not provided.
- One employee did not complete meetings at goal setting or mid-year due to an extended detail.
- One employee did not complete a mid-year review due to an extended detail.
- One employee did not complete goal setting timely due to an extended detail.

Recommendations:

1. Issue a reminder to managers and employees to follow current policies and procedures when conducting the performance management process.
2. Review current policies and develop new policies, as necessary, over the performance management process, including procedures for employees on extended detail.

FMC 11-10: Weaknesses in Controls over Automated Journal Entries (NFR No. CBP-11-19)

In FY 2011, CBP developed standard operating procedures (SOPs) for submitting SAP Change Requests and reviewing SAP automated general ledger postings. However, the SOPs are not

adequately designed to determine whether all types of posting changes are successfully implemented.

Additionally, at the time of testing, evidence of review and approval of the SAP posting logic change made in FY 2011 was not available.

Recommendation:

Revise operating procedures to expand documentation requirements confirming that posting logic changes are correctly made to SAP along with a standard approval process.

FMC 11-11: Weaknesses in Controls over the Bond Sufficiency Review Process (NFR No. CBP-11-20)

During testwork performed over the bond sufficiency process, we identified one insufficient bond on the Bond Sufficiency Report for the month of July 2011 that remained “valid” in ACS and an insufficient bond letter was never sent to the importer.

Recommendation:

The Bond Team should compare importer numbers instead of importer names when checking for duplications.

FMC 11-12: Incorrect use of CBP Overtime Scheduling System (COSS) Codes (NFR No. CBP-11-21)

During testing performed over a sample of 33 CBP Officer timecards, the COSS codes used by three CBP Officers did not correspond to the duties performed by the CBP Officer on the selected day.

Recommendations:

Review current policies to determine effectiveness and revise policies as necessary. Increase communication and training to ensure employees have an appropriate understanding of the use of COSS codes in relationship to their responsibilities. Additionally, ensure proper codes are in place when employees change roles.

FMC 11-13: Lack of Formal Process for Determining Required Supervisory Reviews (NFR No. CBP-11-22)

CBP lacks a formal process to identify all drawback claims requiring supervisory review. Specifically, there is no formal report or list of all claims requiring supervisory review and, therefore, supervisors must rely on Drawback Specialists to properly flag claims requiring review. Additionally, CBP cannot determine if all required supervisory reviews have been completed.

Recommendation:

Until a fully automated system is in place to process claims electronically, develop procedures to ensure completeness over supervisory reviews.

FMC 11-14: Deficiencies over Monitoring of Ethics Requirements (NFR No. CBP-11-23)

During testwork over a sample of 45 new employees in FY 2011, evidence of completion for ethics training related to 17 employees was not provided in a timely manner; therefore, we were unable to perform testwork over these sample items.

During testwork over a sample of 45 public filer and covered employees, evidence of completion for ethics training related to one employee was not provided in a timely manner; therefore, we were unable to perform testwork over this sample item.

Recommendations:

1. Develop a centralized tracking system to ensure employees are complying with ethics requirements.
2. Develop a document retention policy to ensure evidence of completion of ethics training is readily available.

FMC 11-15: Incomplete Undelivered Orders (UDO) Quarterly Review (NFR No. CBP-11-24)

During testing performed over the June quarterly UDO certifications, the following deficiencies were identified:

- Two certifications were not submitted to the NFC to signify a review was completed and no follow-up was performed;
- Two certifications were submitted after the 21 day period;
- Eight certifications incorrectly referenced the directive used to perform the review and/or did not reflect the correct review period per Directive 1220-011D, *Reviews of Unliquidated Obligations and Open Goods / Services Receiving Records*; and
- Three certifications were submitted prior to the end of the third quarter without an explanation as to why the early submission was appropriate.

Recommendation:

Coordinate with program offices to ensure timely and accurate submission of the quarterly UDO certifications.

FMC 11-16: Untimely Deobligation of UDOs and Monitoring of Period of Performance (NFR No. CBP-11-28)

During our testwork over CBP's UDO balance as of August 31, 2011 and September 30, 2011, we selected statistical samples totaling 455 UDOs and noted weaknesses in CBP's monitoring of these obligations. Specifically, we noted the following:

- 11 UDOs were no longer valid and had not been deobligated, or marked for deobligation, totaling \$1.2 million. CBP did not reconcile these UDOs to supporting documentation (e.g., certifications) and reasonably assure that only valid obligations remained open.
- For three purchase order agreements, the period of performance had expired prior to the execution of a modification, for up to a period of four months.

- For two purchase order agreements, the period of performance expired (in September 2010 and April 2011) and it was confirmed that more goods or services were expected to be received on these agreements. However, no modification has been executed on these agreements as of September 30, 2011 to extend the period of performance.
- For one interagency agreement and one purchase order, goods and/or services were accepted prior to the execution of the contract. Thus, the period of performance was back-dated in order to accept the invoices for the good/services.

Recommendations:

1. Follow-up with offices cited on the report as not being in compliance with CBP Directive 1220-011D, *Reviews of Unliquidated Obligations and Open Goods / Services Receiving Records*. Emphasize better communication between the COTR, the program office and the CO.
2. Improve monitoring of the period of performance, especially the end date, on active contract actions to avoid elapse of time and ensure SAP is updated with the current period of performance end date.
3. Improve monitoring of the period of performance, especially the end date, on active contract actions to avoid delays in awarding the renewal contract actions and ensure SAP is updated with the current period of performance end date.

FMC 11-17: Weaknesses in CBP's Payroll Reconciliation Process (NFR No. CBP-11-30)

CBP did not perform a proper reconciliation between the U.S. Department of Agriculture (USDA) Abstract and the Governmentwide Accounting and Reporting Program (GWA) Account Statement. On the USDA Abstract to GWA Account Statement Comparison Worksheet, CBP populates amounts from the USDA Abstract in one column and amounts from the GWA Account Statement in a separate column for comparison. CBP properly utilized the USDA Abstract to populate amounts in the USDA Abstract column. However, when populating amounts in the GWA Account Statement column, CBP erroneously utilized the USDA Abstract instead of the GWA Account Statement. Therefore, CBP did not compare the USDA Abstract to the GWA Account Statement. CBP confirmed that the condition existed for the entire FY 2011.

Recommendation:

Include the GWA reports in the monthly payroll reconciliation to ensure no reconciling items exist.

FMC 11-18: Insufficient Review of Manual Journal Entries (NFR No. CBP-11-31)

Insufficient review was performed over the following Adjusting Journal Entries (AJE) and related supporting documentation, and as a result errors were not identified during the AJE review:

The AJE to record the year-end refunds payable accrual improperly credited Standard General Ledger (SGL) 2990, Other Liabilities without Related Budgetary Obligations, rather than crediting SGL 2190, Other Liabilities with Related Budgetary Obligations. Furthermore, a mathematical error existed in the calculation of the adjustment causing the accrual to be understated by approximately \$1.9 million.

The AJE to record the fourth quarter imputed pension costs excluded the payroll information for pay periods 13 through 18, which resulted in the imputed cost being understated by approximately \$35 million.

Recommendations:

1. Revise the SOP to include a new validation of the prior-year refunds payable calculations, which will impact current year calculations. This validation will be reviewed by the 1st and 2nd level AJE reviewers. In addition, the work-papers for this AJE will be revised to include the correct debit/credit general ledger accounts.
2. For the pension calculation, CBP added work-paper support and a spreadsheet validation to avoid this error in the future.

FMC 11-19: Deficiencies in the Review of the Department of Labor (DOL) Chargeback Report (NFR No. CBP-11-32)

CBP's Human Resource Management (HRM) – Workers' Compensation Program Office (WCPO) does not perform a review of the Detailed Chargeback Report on a quarterly basis. Rather, a review of significant payments is performed every 24 months.

Recommendations:

1. Finalize the amended CBP Directive No. 51810-005, *Workers' Compensation Program*, which includes verbiage that provides HRM – Benefits, Medical and Worklife Division (BM&W) the leverage to develop CBP's processes for monitoring of the chargeback to ensure accuracy.
2. Continue the efforts of the BM&W in developing a process to review and distribute the chargeback report on a quarterly basis. A Senior Advisor will lead the efforts as the initial contact lead to interface and achieve collaboration and buy-in for the quarterly review of CBP's Chargeback.
3. Develop SOPs and conduct training on how to read the Chargeback and conduct the Chargeback review.

U.S. Customs and Border Protection
Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2011

NFR Number	Description	Disposition*			
		Independent Auditors' Report			FMC
		Material Weakness	Significant Deficiency	Non-Compliance	Number
CBP-11-01	Certification of Refund and Drawback Payments				11-01
CBP-11-02	Insufficient Retention Period for Documents that Support Drawback Claims	A			
CBP-11-03	Automated Commercial System (ACS) Deficiency over the Accumulation of Accelerated Payments Against a Drawback Bond				11-02
CBP-11-04	ACS Limitations – Review of Prior Related Drawback Claims and Selectivity for Underlying Consumption Entries	A			
CBP-11-05	ACS Deficiencies over Non-Entity Accounts Receivable and CBP's Ability to Effectively Monitor Collection Actions			Compliance Determined at Department Level	
CBP-11-06	Lack of System Integration and Compliance with the U.S. Standard General Ledger (USSGL) at the Transaction Level Related to Inventory and Related Property, Net			Compliance Determined at Department Level	
CBP-11-07	Weaknesses in CBP's Process Related to Asset Additions and Classification of Property, Plant, and Equipment (PP&E) Related Transactions as of 4/30/2011		B		
CBP-11-07b	Weaknesses in CBP's Process Related to Asset Additions and Classification of PP&E Related Transactions as of 7/31/2011 and 9/30/2011		B		
CBP-11-08	Improper Settlement of Assets, Including Untimely Capitalization of Assets from Construction in Progress (CIP) as of 4/30/2011		B		
CBP-11-08b	Improper Settlement of Assets, Including Untimely Capitalization of Assets from CIP as of 7/31/2011 and 9/30/2011		B		
CBP-11-09	Weaknesses in CBP's Process Related to Asset Disposals as of 4/30/2011		B		
CBP-11-09b	Weaknesses in CBP's Process Related to Asset Disposals as of 7/31/2011 and 9/30/2011		B		
CBP-11-10	Lack of Controls over Timely Processing of Goods and Services Received as of 3/31/2011				11-03
CBP-11-10b	Lack of Controls over Timely Processing of Goods and Services Received as of 7/31/2011 and 9/30/2011				11-03
CBP-11-11	Weaknesses in the Monitoring and Review Process over Fines, Penalties, and Forfeiture (FP&F) Cases				11-04
CBP-11-12	Lack of Implementation of Controls over Determining Classification of Leases				11-05

U.S. Customs and Border Protection
Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2011

NFR Number	Description	Disposition*			
		Independent Auditors' Report			FMC
		Material Weakness	Significant Deficiency	Non-Compliance	Number
CBP-11-13	Weaknesses in the Review of Weekly Entry Edit / Exception Reports				11-06
CBP-11-14	Lack of Evidence of Review of the Drawback Auto / Deemed Liquidation (D28) Alert Report				11-07
CBP-11-15	Detection of Excessive Drawback Claims	A			
CBP-11-16	Deficiencies in the In-Bond Process		C		
CBP-11-17	Deficiencies in the Public Financial Disclosure Reporting Process				11-08
CBP-11-18	Deficiencies in the Performance Management Program				11-09
CBP-11-19	Weaknesses in Controls over Automated Journal Entries				11-10
CBP-11-20	Weaknesses in Controls over the Bond Sufficiency Review Process				11-11
CBP-11-21	Incorrect use of CBP Overtime Scheduling System (COSS) Codes				11-12
CBP-11-22	Lack of Formal Process for Determining Required Supervisory Reviews				11-13
CBP-11-23	Deficiencies over Monitoring of Ethics Requirements				11-14
CBP-11-24	Incomplete Undelivered Orders (UDO) Quarterly Review				11-15
CBP-11-25	Weaknesses Identified in the Bonded Warehouse and Foreign Trade Zone Processes and Procedures		C		
CBP-11-26	Weaknesses in the Trade Compliance Measurement (TCM) Program		C		
CBP-11-27	Oversight of PP&E		B		
CBP-11-28	Untimely Deobligation of UDOs and Monitoring of Period of Performance				11-16
CBP-11-29	Weaknesses in CBP's Process Related to Recording Construction Percentage of Completion Amounts		B		
CBP-11-30	Weaknesses in CBP's Payroll Reconciliation Process				11-17
CBP-11-31	Insufficient Review of Manual Journal Entries				11-18
CBP-11-32	Deficiencies in the Review of the Department of Labor (DOL) Chargeback Report				11-19

*Disposition Legend:

FMC Financial Management Comment

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

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

U.S. Customs and Border Protection
Status of Prior Year Findings
 September 30, 2011

NFR Number	Description	FY11 Disposition	
		Closed	Repeat (FY11 NFR No.)
CBP-10-01	Untimely Deobligation of Inactive Obligations		CBP-11-24
CBP-10-02	Lack of System Integration and Compliance with the U.S. Standard General Ledger (USSGL) at the Transaction Level Related to Inventory and Related Property, Net		CBP-11-06
CBP-10-03	Automated Commercial System (ACS) Limitations – Review of Prior Related Drawback Claims and Selectivity for Underlying Consumption Entries		CBP-11-04
CBP-10-04	ACS Deficiencies over Non-Entity Accounts Receivable and CBP's Ability to Effectively Monitor Collection Actions		CBP-11-05
CBP-10-05	ACS Deficiency over the Accumulation of Claims Against a Drawback Bond		CBP-11-03
CBP-10-06	<i>Number not used</i>	<i>Not applicable</i>	
CBP-10-07	Improper Control Design of the "Failed Disbursements Report"	X	
CBP-10-08	Lack of Controls over Timely Processing of Goods and Services Received		CBP-11-10, CBP-11-10b
CBP-10-09	Weakness in CBP's Search for Unrecorded Accounts Payable Used to Support the Accounts Payable Estimate	X	
CBP-10-10	Weakness in the Monitoring and Review Process over the Completion of Fines, Penalties, and Forfeiture (FP&F) Cases		CBP-11-11
CBP-10-11	Weakness in the Review of Weekly / Monthly Entry Edit Reports		CBP-11-13
CBP-10-12	Weaknesses in CBP's Process Related to Asset Additions and Classification of Property, Plant, and Equipment (PP&E) Related Transactions		CBP-11-07
CBP-10-13	Lack of Implementation of Controls over Determining Capital Leases		CBP-11-12
CBP-10-14	Deficiencies in the In-Bond Process		CBP-11-16
CBP-10-15	Weaknesses in CBP's Process Related to Asset Disposals		CBP-11-09
CBP-10-15b	Weaknesses in CBP's Process Related to Asset Disposals as of 7/31/2010 and 9/30/2010		CBP-11-09b
CBP-10-16	Insufficient Retention Period for Documents that Support Drawback Claims		CBP-11-02
CBP-10-17	Lack of Formal Policies over Review of Importer Self-Assessment Annual Notification Letters	X	
CBP-10-18	Failure to Complete Supervisory Review of Drawback Claims		CBP-11-22

U.S. Customs and Border Protection
Status of Prior Year Findings
 September 30, 2011

NFR Number	Description	FY11 Disposition	
		Closed	Repeat (FY11 NFR No.)
CBP-10-19	Certification of Refund and Drawback Payments		CBP-11-01
CBP-10-20	Detection of Excessive Drawback Claims		CBP-11-15
CBP-10-21	Failure to Review the D28 Alert Report		CBP-11-14
CBP-10-22	Weaknesses in Controls over Automated Journal Entries and Misstatement of Liabilities Related to Injured Domestic Industries		CBP-11-19
CBP-10-23	Deficiencies in CBP's Controls over the Application of Benefits to Customs-Trade Partnership Against Terrorism (C-TPAT) Partners	X	
CBP-10-24	Weaknesses in CBP's Process Related to Recording Construction Percentage of Completion Amounts		CBP-11-29
CBP-10-25	Improper Settlement of Assets, Including Untimely Capitalization of Assets from Construction-In-Progress (CIP)		CBP-11-08
CBP-10-25b	Improper Settlement of Assets, Including Untimely Capitalization of Assets from CIP as of 7/31/2010 and 9/30/2010		CBP-11-08b
CBP-10-26	Oversight of Financial Reporting Issues	X	
CBP-10-27	Lack of Supporting Documentation for Intra-Departmental Eliminating Journal Entries Related to Operating Expenses	X	
CBP-10-28	Deficiencies in CBP's Controls over Calculating the Validity and Collectability of Non-Entity Taxes, Duties, and Trade Receivables, net	X	
CBP-10-29	Management Oversight of PP&E		CBP-11-27
CBP-10-30	Weaknesses Identified in the Bonded Warehouse and Foreign Trade Zone Processes and Procedures		CBP-11-25
CBP-10-31	Inadequate Oversight of Trade Compliance Measurement		CBP-11-26
CBP-10-32	Lack of Segregation of Duties and Insufficient Review for Manual Journal Entries		CBP-11-31
CBP-10-33	Deficiencies in CBP's Seized Inventory Process	X	
CBP-10-34	Improper Payment of Interest	X	
CBP-10-35	Insufficient Documentation of Statement on Auditing Standards (SAS) 70 review	X	
CBP-10-36	Weaknesses in CBP's Process Related to Asset Additions and Classification of Transactions as of 7/31/2010 and 9/30/2010		CBP-11-07b
CBP-10-39	Untimely Deobligation of Undelivered Orders (UDO)		CBP-11-28
CBP-10-40	Deficiencies in CBP's Office of Air and Marine (OAM)	X	

U.S. Customs and Border Protection
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NFR Number	Description	FY11 Disposition	
		Closed	Repeat (FY11 NFR No.)
	Inventory Process		
CBP-10-41	Inability to Support the Injured Domestic Industries Liability	X	

U.S. Customs and Border Protection
Management Response to the Draft Management Letter
September 30, 2011

1300 Pennsylvania Avenue NW
Washington, DC 20229



U.S. Customs and
Border Protection

FEB 17 2012

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 CBP's
Fiscal Year 2011 Consolidated Financial Statements

On behalf of U.S. Customs and Border Protection (CBP), I am responding to the draft report titled, *Management Letter for U.S. Customs and Border Protection's Fiscal Year 2011 Consolidated Financial Statements*.

We have reviewed and concur with all weaknesses contained in the draft report. 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 Ms. Jaye M. Williams, Executive Director, Financial Operations Directorate, at (202) 344-2364.

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

Deborah J. Schilling

Attachments

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