



Performance and Accountability Report

Fiscal Year 2005



U.S. Customs and
Border Protection

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Message from the Commissioner

U.S. Customs and Border Protection (CBP) is America's single, unified border agency charged with the national security mission of controlling, managing, and securing the borders of our country. Because CBP possesses broad, border-related legal authorities, it is strategically positioned to prevent further terrorist attacks on our nation and to carry out its priority mission—keeping terrorists and terrorist weapons from entering the United States. While CBP has made enormous progress in developing and implementing initiatives that help secure our borders, as well as

secure and facilitate legitimate trade and travel, the agency faces a number of challenges and has established priority goals for meeting those challenges.

First, we aim to gain and maintain operational control of our borders by using the most effective mix of personnel, technology, and strategically placed infrastructure to increase our detection and apprehension rate between the land border ports of entry. These efforts are essential to preventing terrorist penetration of our borders. We will also increase our effectiveness by maintaining strong training and recruitment programs, by managing the deployment of technology, facilities, and infrastructure, by integrating CBP air and marine programs, and by cultivating and maintaining strong partnerships with other government agencies.

Second, CBP will prevent terrorists from entering our country at the ports of entry by improved targeting, based on intelligence-driven terrorist risk factors and travel patterns, using our Automated Targeting System (ATS); by improving our counter-terrorism “purpose and intent” questioning techniques; by strengthening consolidated counter-terrorism secondary inspection; and by extending our border by expanding the Immigration Advisory Program to leverage pre-departure passenger information. These efforts will strengthen CBP's multi-layered strategy to prevent the entry of terrorists into the United States.

Third, CBP will strengthen supply chain security against the entry of terrorist weapons, including chemical, biological, radiological, nuclear, and agriculture terrorist weapons. CBP will work with the Department of Homeland Security's Domestic Nuclear Detection Office (DNDO) to develop the next generation of radiation detection technology to improve our detection capabilities at our nation's borders. We will work with the Departments of Energy and State to develop a defense-in-depth strategy to deter, detect and prevent radiological and nuclear weapons from entering the U.S. CBP will work to assure that the Container Security Initiative (CSI) is expanded to provide a broad network of security capable of screening all high-risk containers before they leave foreign ports for the U.S. Customs-Trade Partnership Against Terrorism (C-TPAT) will be dynamically upgraded to reach its potential as another key element of our cargo security strategy. This will allow CBP to focus targeting, inspection and enforcement actions on high-risk cargo in the sea, land and air environments while facilitating shipments and conveyances that pose no terrorist risk. CBP will also implement security technologies, such as improved container seals and the “Smart Box,” for use in the international supply chain. CBP will use the information and processes developed as part of these programs to ensure global security and the continuity of operations of our trade lanes and our just-in-time economy.

Fourth, CBP will strengthen risk-based operational decision-making and resource allocation. CBP will enhance its current intelligence, analytical, management, communication, and logistical capabilities to ensure that personnel and assets are directed to meet our priority mission, and that CBP is able to respond quickly and effectively to identify threats. We will make certain that operations respond to current intelligence using rapid response mechanisms at and between the ports of entry. We will design planning and budgeting processes to reflect risk management principles so that resource allocation directly supports agency priorities.

Fifth, in order to improve the security and facilitation of global trade, CBP will continue to play a leading role in implementing the World Customs Organization Framework of Standards throughout the world. These efforts will include a strong capacity building program within CBP to coordinate our own activities within the U.S. and with world financial and aid organizations, as well as with other customs administrations around the world.

Sixth, CBP will work to increase those programs that facilitate legitimate trade and travel. We will expand “Trusted Traveler” programs, such as NEXUS, SENTRI and FAST, and make processing and support of these programs more efficient through the Global Enrollment System. CBP will launch a trusted air passenger program, US PASS, and enter into appropriate bilateral trusted air passenger programs with other nations, such as NEXUS AIR. CBP will also continue to refine targeting of cargo and conveyances to ensure that enforcement resources are not spent inspecting low risk trade.

Seventh, CBP will work to strengthen the acquisition and deployment of detection technology. To ensure successful deployment of new technology platforms, we will support strong program management offices for our major new technology programs, such as the Automated Commercial Environment (ACE) and integrated border detection technology, which will facilitate the integration of experts in procurement, information and technology systems, planning, measurement and oversight, and operational deployment. These offices are charged with coordinating with stakeholders, navigating the investment and budget processes, identifying requirements, meeting testing and deployment schedules, overseeing project accountability and firmly managing contractual obligations to meet mission requirements.

Eighth, CBP will continue to strengthen its employee base and integrity assurance to support CBP’s mission and operational activities. CBP will undertake initiatives to strengthen retention, recruitment and support of operational and mission support employees. In addition, we will support CBP managers, many of whom have taken on significant new roles and responsibilities, by strengthened management training and staff support. CBP will strengthen integrity among our frontline officers by undertaking proactive initiatives to identify and prevent corruption, ensuring that officers know to whom they should report concerns about corruption, and seeing that prompt and strong disciplinary action is taken in cases of corruption. CBP will also implement a robust Management Inspection Division annual plan that ensures adherence to key CBP antiterrorism policies.

Finally, CBP will accomplish all actions needed to complete “One Face at the Border,” that is, one unified border agency of the U.S. government. CBP will fully integrate our immigration, customs, agriculture protection, and entry control authorities, functions and personnel in order to more effectively and optimally pursue our priority and other traditional missions. We will effectively align CBP’s Border Patrol with our overall border security mission, as part of creating one comprehensive frontline border agency for all aspects of our borders.

Combating international terrorism is CBP’s number one priority, and to perform this mission requires a highly trained and flexible workforce that can rapidly respond to terrorist threats. CBP’s statistics tell our story and give an idea of the depth and breadth of CBP’s significant national security mission. This year, CBP processed nearly 450 million passengers and pedestrians, as well as approximately 20 million sea, truck and rail containers. CBP made over 1.7 million apprehensions of aliens attempting to enter the U.S. illegally; seized more than 2 million pounds of illegal drugs; and collected more than \$31 billion in revenue.

In this Performance and Accountability Report, CBP provides performance and financial data that are complete and reliable, as outlined by the guidance available from the Office of Management and Budget

(OMB). We have identified no material inadequacies, and this report describes our continuing efforts to provide timely and useful performance information to Customs and Border Protection (CBP) managers and the Department of Homeland Security.

In addition, CBP has evaluated its management controls and financial management systems as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and its internal controls over financial reporting as required by the Department of Homeland Security Financial Accountability Act. Three material weaknesses have been identified as a result of these reviews. Two of these deficiencies are from previous years in the areas of drawback and financial system integration. The third deficiency was reported in FY 2005 and involves inadequate security controls affecting system access to CBP applications and data. We have identified milestones and established timetables to correct these deficiencies, although the drawback deficiency will likely require legislative reform. Although CBP is not yet compliant with FMFIA requirements, with the exception of the material weaknesses previously described, CBP is in compliance with the control objectives of Section 2 of the FMFIA. Based on our annual self-assessments performed under the Federal Information Security Management Act, related acts and other reviews of our information technology programs and security, I can state compliance with federal information technology standards and requirements, with the exception of the material weaknesses described.

An independent audit was conducted on CBP's FY 2005 Balance Sheet by KPMG LLP. Material deficiencies, as evidenced by the auditor's report found in the Financial Section of this report, support those identified through CBP's self-assertion process except for the material weakness on Environmental Liabilities identified by KPMG.

As required by the Improper Payments Information Act of 2002, this report provides information on the amount of improper payments made by CBP. I can report that improper payments have been found to be insignificant, and recovery efforts are underway.

CBP is America's frontline border agency, and as such, is charged with one of the most important priority homeland security missions of any agency of the federal government—securing America's borders against terrorists and terrorist weapons. No agency of our government has a more important mission than CBP, and we carry out our mission with an effective, well-trained and professional workforce, clearly defined goals and policies, and a dedicated management team. I am enormously proud of U.S. Customs and Border Protection's achievements over its two and a half year history, and I am confident that CBP is on sound footing and that strategies and programs are in place to protect our nation against further terrorist attacks.



Robert C. Bonner
Commissioner

November 15, 2005

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Management's Discussion and Analysis

Overview Of CBP

Mission

CBP is the unified border agency within the Department of Homeland Security (DHS) charged with the important priority mission of preventing terrorists and terrorist weapons from entering the United States while also facilitating the flow of legitimate trade and travel. CBP has more than 40,000 employees to manage, control, and protect the nation's borders at and between the official ports of entry. For the first time in our nation's history, one agency has the sole responsibility of protecting our borders. As the single, unified border agency, CBP's mission is vitally important to the protection of the American people and the national economy.

Core Values

Vigilance is how we ensure the safety of all Americans. We are continuously watchful and alert to deter, detect, and prevent threats to our Nation. We demonstrate courage and valor in the protection of our Nation.

Service to Country is embodied in the work we do. We are dedicated to defending and upholding the Constitution of the United States. The American people have entrusted us to protect the homeland and defend liberty.

Integrity is our cornerstone. We are guided by the highest ethical and moral principles. Our actions bring honor to ourselves and to our agency.

FY 2005 Statistical Highlights

- Ports of entry: 322 (includes 14 pre-clearance stations)
- Border Patrol Stations: 164 (including 20 sector offices)
- Trade entries processed: 29 million
- Total revenue collected: \$31.4 billion (CBP \$28.6, Other \$2.8)
- Illegal narcotics seized: 2 million pounds
- Illegal alien apprehensions: 1.7 million (1.2 million between the POE)
- Pedestrians and passengers processed: 431 million
- Conveyances processed: 134 million

CBP Collections by Major Processing Port Locations

(Dollars in thousands)

	2004	2005		2004	2005
Boston	\$ 440,158	\$ 457,696	New Orleans	855,041	885,110
Buffalo-Niagara Falls	181,876	201,428	Dallas/Ft. Worth	335,763	378,052
Ogdensburg	102,490	120,864	El Paso	112,521	126,113
Portland, Maine	54,311	59,397	Houston	497,180	611,527
Providence	67,787	74,624	Laredo	307,842	337,921
St. Albans	41,129	47,311	Port Arthur	32,613	35,092
Baltimore	548,892	584,537	Nogales	92,216	82,636
Philadelphia	549,459	586,956	Los Angeles	5,982,568	6,788,238
New York	285,432	402,907	San Diego	230,158	237,419
Newark	3,675,783	3,777,032	Anchorage	101,446	84,913
JFK Airport	1,274,989	1,300,376	Honolulu	45,898	42,089
Charleston	906,318	1,145,999	Portland	341,904	369,471
Miami	844,143	798,307	San Francisco	774,722	800,687
San Juan	98,709	15,381	Seattle	816,870	1,143,720
St. Thomas	11,949	113,244	Chicago	1,299,606	1,412,668
Savannah	958,250	1,108,911	Cleveland	1,009,197	1,114,677
Tampa	390,533	409,229	Detroit	487,286	552,711
Wilmington	272,646	267,769	Duluth	1,933	2,577
Norfolk	563,558	629,274	Milwaukee	32,437	32,630
NFC Indianapolis/ Washington	761,791	737,498	Minneapolis	121,149	130,292
Mobile	108,809	125,715	Pembina	14,256	16,434
			St. Louis	293,594	304,816
			Great Falls	124,965	140,278
			Total Collections	26,050,177	28,594,526

Major Mission Programs/Strategies

As the frontline agency responsible for securing the nation's borders while facilitating legitimate trade and travel, CBP has several programs to accomplish this mission. CBP uses risk assessment and targeting analysis through the Office of National Targeting and Security (NTS) to support these programs.

A few of the major programs are described below.

Container Security Initiative (CSI)

CSI is based on the idea of extending our zone of security outward so that American borders are the last line of defense, not the first. Through CSI, sea containers that pose a risk for terrorism are identified and examined at foreign ports before they are shipped to the U.S. CSI consists of four core elements:

- Using intelligence and automated advance information to identify and target containers that pose a risk for terrorism;
- Prescreening those containers that pose a risk at the port of departure before they arrive at U.S. ports;
- Using detection technology to prescreen containers that pose a risk; and
- Using smarter, tamper-evident containers.

Containerized shipping is a critical component of global trade because approximately 90 percent of the world's trade is transported in cargo containers. In the U.S., almost half of incoming trade (by value) arrives by containers onboard ships. More than 11 million cargo containers arrive on ships and are offloaded at U.S. seaports each year.

Through partnerships with foreign governments, teams of CBP officials deployed to work in concert with their host nation counterparts screen containers that pose a terrorism risk. In September 2005, CBP officers began operations at the 40th CSI port overseas. CBP's long-term goal is to have 86 percent of the sea containers coming to the U.S. shipped from CSI ports. Approximately 73 percent of cargo containers destined for the U.S. originate in or are transshipped from the 40 CSI ports.

In all, 24 administrations have committed to join the CSI program. CBP will continue to expand the program to additional ports based on volume, location, and strategic concerns. Strong support from countries on the European, Asian, and African continents ensures that CSI will continue to expand to ports in those areas. CSI is a reciprocal program that offers participating countries the opportunity to send their customs officers to major U.S. ports to target oceangoing containerized cargo being exported to their countries. Likewise, CBP shares information on a bilateral basis with its CSI partners.

Customs-Trade Partnership Against Terrorism (C-TPAT)

C-TPAT is part of CBP's extended border strategy to protect America against the terrorist threat, to protect the global supply chain, and to facilitate trade. Under the C-TPAT initiative, CBP works with importers, carriers, brokers, and other industry sectors to enhance supply chain security and meet our twin goals of

security and facilitation. Membership entails completion of a comprehensive security profile, and a commitment to work with CBP to strengthen the supply chain. Once CBP reviews and certifies the submitted security profiles, C-TPAT Supply Chain Security Specialists are sent out worldwide to validate the commitments of the certified members, as well as recommend areas for improvement. C-TPAT Members currently receive considerable benefits, the two greatest of which are fewer cargo inspections and expedited clearance processes at the border. As of the end of FY 2005, there were over 9,900 applicants, of which 5,300 are certified members.

By providing a forum in which the business community and CBP can exchange anti-terrorism ideas, concepts, and information, both the government and business community will increase the security of the entire commercial process from manufacture through transportation and importation to ultimate distribution.

Non-Intrusive Inspection (NII)

Some media reports frequently state that CBP inspects only 2 percent of the sea containers entering the country each year. The 2 percent figure erroneously implies that 98 percent of sea containers receive no attention or scrutiny at all from CBP officers. The truth is that CBP screens the data and information for all 11 million cargo containers arriving in the U.S. each year, and closely scrutinizes and examines all shipments identified as high risk. CBP has developed a multilayered process to target high-risk shipments and provides a fast lane for legitimate cargo. Examinations of sea containers are a small part of this process.

CBP thoroughly screens and examines 100 percent of the shipments that pose a risk to our country. The goal is to screen these shipments before they depart for the U.S. whenever possible. CBP receives electronic bill of lading/manifest data for approximately 98 percent of the sea containers before they arrive at U.S. seaports. CBP uses this data to identify the lowest-risk cargo being shipped by long-established and trusted partners. CBP uses an Automated Targeting System (ATS) to automatically flag the highest-risk shipments. This powerful rules-based computer system sorts through records stored in a massive database that contains detailed information on every shipment that has entered the U.S. over the past 10 years. ATS screens each ship's electronic manifest, comparing and analyzing the information with this database. CBP has special targeting teams that further analyze data before the ship arrives at a U.S. port. CBP officers and import specialists use their many years of training and experience to help identify anomalies in shipping information.

CBP officers use NII equipment such as full-truck gamma ray and X-ray machines to scan the contents of containers. These units can scan the interior of a full-size 40-foot container in under a minute, and the newest Eagle Mobile Sea Container X-Ray System can penetrate more than a foot of steel. Currently, 11 U.S. seaports have 116 radiation portal monitors that scan cargo containers for radioactive materials as they are offloaded from ships. Specially trained dogs check for traces of narcotics, currency, explosives, and other contraband. Officers use personal radiation detectors to scan for signs of radioactive materials. Inspectors also use such special high-tech tools as densitometers and fiber-optic scopes to peer inside suspicious containers. Finally, if necessary, containers are opened and unloaded for a lengthy, more thorough carton-by-carton inspection.

Automated Passenger Information System (APIS)

APIS is the single most critical element of this nation's ability to identify dangerous individuals entering the U.S. This is a system that receives biographical and official passport information on passengers arriving and departing by air and sea. The information is used to perform enforcement queries against multi-agency law enforcement lookouts, immigrant visas, and history databases prior to passengers' arrival or departure.

CBP continues to receive 99 percent of the advance information on passengers and crew with accuracy sufficient for basic law enforcement queries. In an effort to address the impending period of increased risk and determine the ability of the air carriers to transmit data in a timely manner, CBP proposed that carriers voluntarily submit batch advance passenger information periodically throughout the check-in process. This would allow CBP to run "no fly" checks prior to departure and to test the capability of sending a "no board" message to carriers indicating a positive "no fly" hit.

Automated Commercial Environment (ACE)

ACE, the new U.S. trade processing system, is designed to consolidate and automate border processing to significantly enhance border security and foster our nation's economic security through lawful international trade and travel. The current CBP import system, the Automated Commercial System (ACS), was designed in 1984 and eventually will be replaced by ACE as part of a multi-year CBP modernization effort.

Automating time-consuming and labor-intensive transactions and moving goods through the ports and into markets faster and at lower cost will simplify dealings between CBP, the trade community, and other government agencies. Among other capabilities, CBP personnel will have automated tools and better information to decide, before a shipment reaches U.S. borders, what cargo should be targeted because of the potential risk it poses, and what cargo should be expedited because it complies with U.S. laws.

ACE also provides national account-based processing and data views as CBP moves away from transaction-by-transaction and paper-based processing. By providing the right information and tools, ACE will be a critical element in enforcing trade law and preventing cargo from becoming an instrument of terrorism.

Benefits of ACE include:

- Enhanced border security
- Increased access to data
- Expedited trade flow
- Reduced paper handling
- Simplified and expedited cargo release
- Periodic monthly payment ability and account statements
- Online access to data

The CBP transition to account-based processing began in October 2003 with the launch of the ACE Secure Data Portal. This customized web page provides a single, online access point for several CBP systems and

the FBI's National Crime Information Center (NCIC). Periodic payment and statement features were introduced in June 2004.

Ultimately, ACE will be available as the CBP system of record in virtually all ports and other CBP facilities, bringing capabilities for automation and integration of data to most CBP trade processes. CBP is carefully preparing for the transition from current systems to ACE. A transitional architecture temporarily supports dual operations and facilitates the transfer of data. As official record systems and data are migrated to ACE, dependence on older systems will diminish. By employing a phased transition strategy, CBP will steadily modernize its systems and processes to provide significantly more reliable and efficient operations for ACE users.

National Border Patrol Strategy

Ports of Entry (POE) serve as designated access points into and out of the U.S. Between these ports lie thousand of miles of open space, traversing deserts, waterways, forests and prairies. These places along our nation's perimeter are vulnerable to the threats of terrorism and to exploitation from smugglers of persons and illegal substances. CBP's Office of Border Patrol (OBP) has been given the monumental task of gaining and maintaining operational control of the U.S. border between the POE. To achieve this goal, the Border Patrol implemented the National Border Patrol Strategy in May of 2005. The five main objectives of this strategy are:

- Establish substantial probability of apprehending terrorists and their weapons as they attempt to enter illegally between the POE;
- Deter illegal entries through improved enforcement;
- Detect, apprehend, and deter smugglers of humans, drugs, and other contraband;
- Leverage "Smart Border" technology to multiply the effect of enforcement personnel; and
- Reduce crime in border communities and consequently improve the quality of life and economic vitality of these areas.

During FY 2005, a variety of programmatic, technological, and tactical approaches have been utilized to realize progress toward the accomplishment of these objectives.

Arizona Border Control Initiative (ABCI)-Phase II

ABCI is an essential element of the National Border Patrol Strategy and is central to the agency's ability to execute the priority mission of preventing terrorists and terrorist weapons from entering the U.S. In FY 2004, the following goals were set for the initial phase of the program: securing operational control of the Arizona border, in support of the priority and traditional missions; significant impairment of the ability of smuggling organizations to operate; and a reduction in the rate of violent crime and the demand on social services in southern Arizona. With the implementation of Phase II of ABCI, OBP was better positioned to use "Smart Border" technology, strengthen aerial support for its border interdiction efforts, and improve coordination with law enforcement partners. To carry out Phase II, OBP strengthened its enforcement presence along the

Overview of CBP

Arizona border. The number of Border Patrol agents assigned to the Tucson Sector has been significantly increased to more than 2,300.

Interior Repatriation (IR)

In an effort to reduce the tragic loss of life along the U.S. border with Mexico and to break the cycle of smuggling in the West Desert Corridor of the Tucson Sector, the IR program was renewed in FY 2005. This program stemmed from an agreement with the government of Mexico in which Mexican migrants apprehended entering illegally through high-risk desert areas would be voluntarily repatriated to the interior of Mexico. This program makes it much more difficult for these migrants to illegally reenter the U.S. In FY 2005, 20,558 Mexican nationals were returned to Mexico under the IR program.

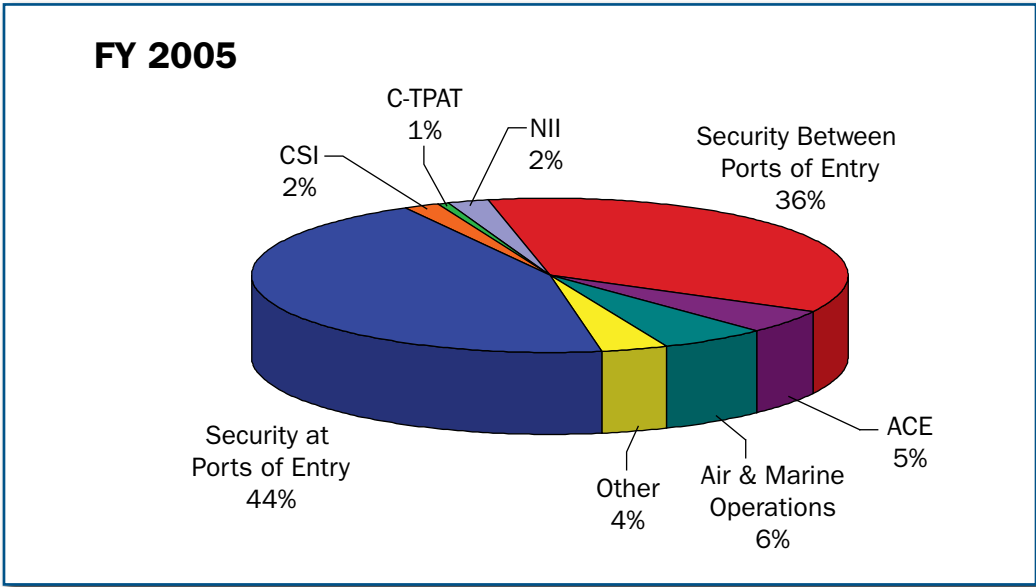
Expedited Removal (ER)

A key element of OBP's ongoing illegal entry deterrence effort was the implementation and expansion of ER. It requires the mandatory detention of select classes of illegal migrants who can be removed from the U.S. without a hearing. This class includes aliens who are present in the U.S. without having been admitted or paroled following inspection by an immigration officer at a designated POE, who are encountered by an immigration officer within 100 air miles of the U.S. border, and who are unable to establish their physical presence in the U.S. for the two-week period prior to the date of encounter. It is important to note that ER only applies to migrants from countries other than Mexico, excluding Cuba and El Salvador, and cannot be applied to unaccompanied juveniles or family units.

Prior to the implementation of ER, illegal migrants who could not be detained due to a lack of detention space were released on their own recognizance (OR). As OR rates increased, the rate of illegal entry attempts also increased, especially among migrants from Brazil and Honduras. Migration patterns shifted from sector to sector, to areas with higher OR rates. ER has now been implemented across the entire southwestern border of the U.S., and there has been a dramatic drop in the percentage of migrants being released on their own recognizance.

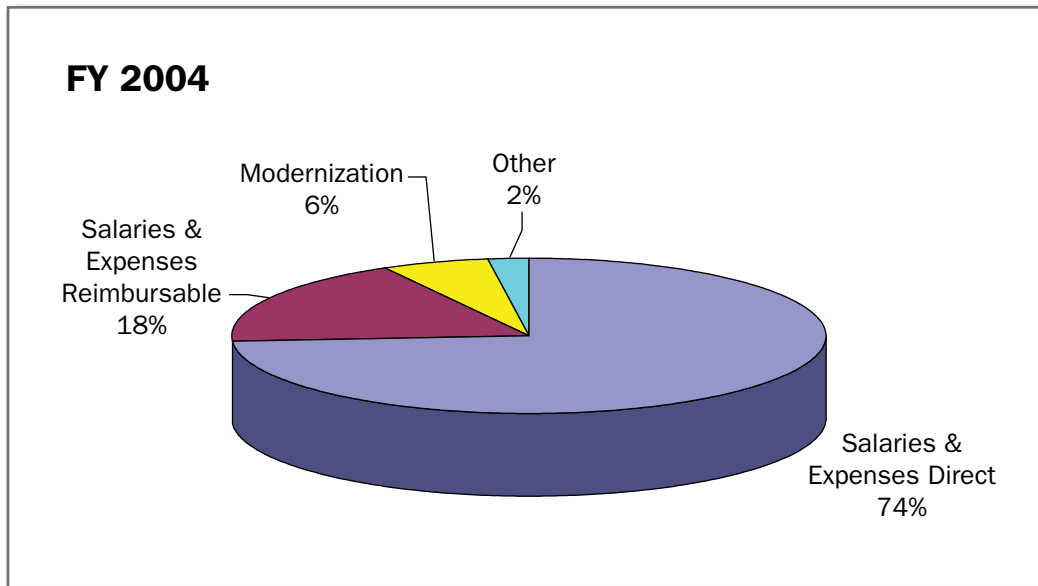
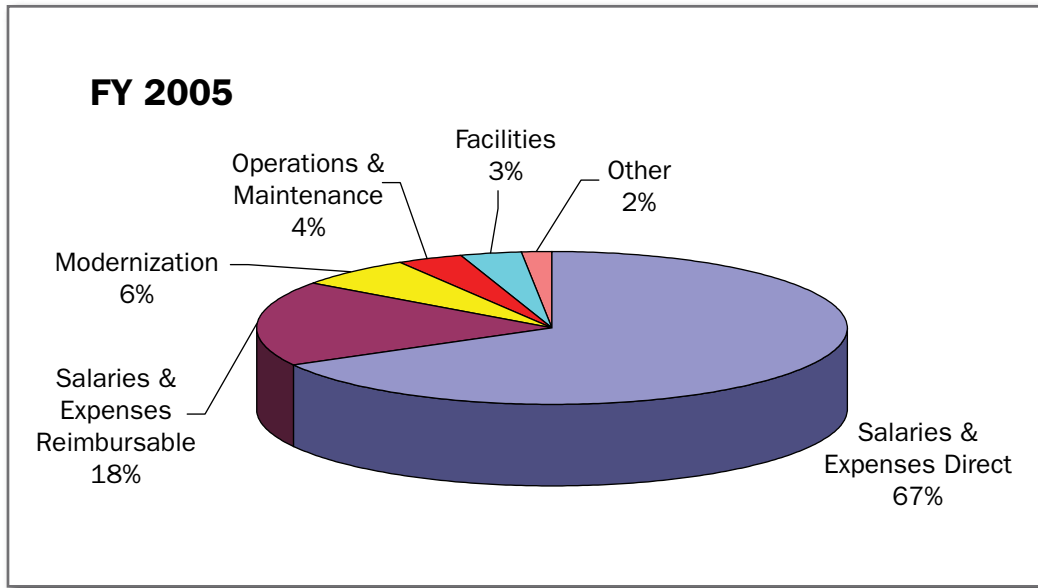
Budget by Program

The chart below presents the FY 2005 budget by major program element.



Budget Resource Obligations

The charts below present a comparison of the distribution of CBP budget resource obligations for FY 2004 and FY 2005.



Looking Ahead

CBP will continue to expand and enhance the major programs previously discussed along with new initiatives and enhancements.

World Customs Organization (WCO)

In June 2005, CBP Commissioner Robert C. Bonner met with other leaders of the WCO in Brussels, Belgium, to urge members to adopt a framework that will provide common standards and practices for governments and industry to secure global trade. The WCO is an independent intergovernmental body with 168 member governments, which represent 98 percent of global trade. In a prepared statement, Commissioner Bonner said, “The framework represents a worldwide strategy that all nations can implement in order to combat global terrorism and to protect trade and our economies. And, it has the potential to revolutionize the security and efficient movement of global trade. But its potential counts for little unless it is adopted and implemented.”

The “Framework of Standards to Secure and Facilitate Global Trade” (the Framework) calls on customs administrations to use interoperable electronic systems to share advance information that identifies high-risk containers or cargo. It also calls for the use of non-intrusive inspection equipment, automated risk assessment systems, and development of performance measures, among other principles. The WCO Council voted to adopt the Framework during the June meeting, thus establishing international security standards for world trade. CBP will continue to take a leadership role in the WCO in the implementation of these standards. As part of this commitment, CBP is instituting a comprehensive capacity building program designed to aid other countries in achieving Framework goals.

Biometric Identification

The U.S. Visitor and Immigrant Status Indicator Technology (US-VISIT) program was launched in January 2004, and has been deployed at many of our land, sea, and air POE. This system provides CBP officers at primary inspection locations with biometric identifiers such as fingerprints and photographs using an inkless fingerprint scanner and digital camera to verify the identity of foreign nationals wishing to enter the U.S. with a visa. US-VISIT’s biometric information will help thwart identity fraud by providing unalterable, unassailable identity information. It is an entry-exit system that will also provide CBP with the information to determine if someone has remained in the country longer than authorized. This system has access to databases that can identify people with criminal histories and those who may be linked to terrorist activities.

Testing of the second phase of US-VISIT began in August 2005 at selected land crossings along the Canadian and Mexican borders. Radio Frequency Identification (RFID) tags were imbedded in the standard I-94 visitor form. These tags transmit a serial number to antennas at the border crossing. The serial number is linked to a database containing personal and biometric information for the individual seeking entrance to the U.S. Use of this technology will allow CBP officers to pass these individuals through with less scrutiny so they can concentrate more on those who may pose a threat to the U.S.

Overview of CBP

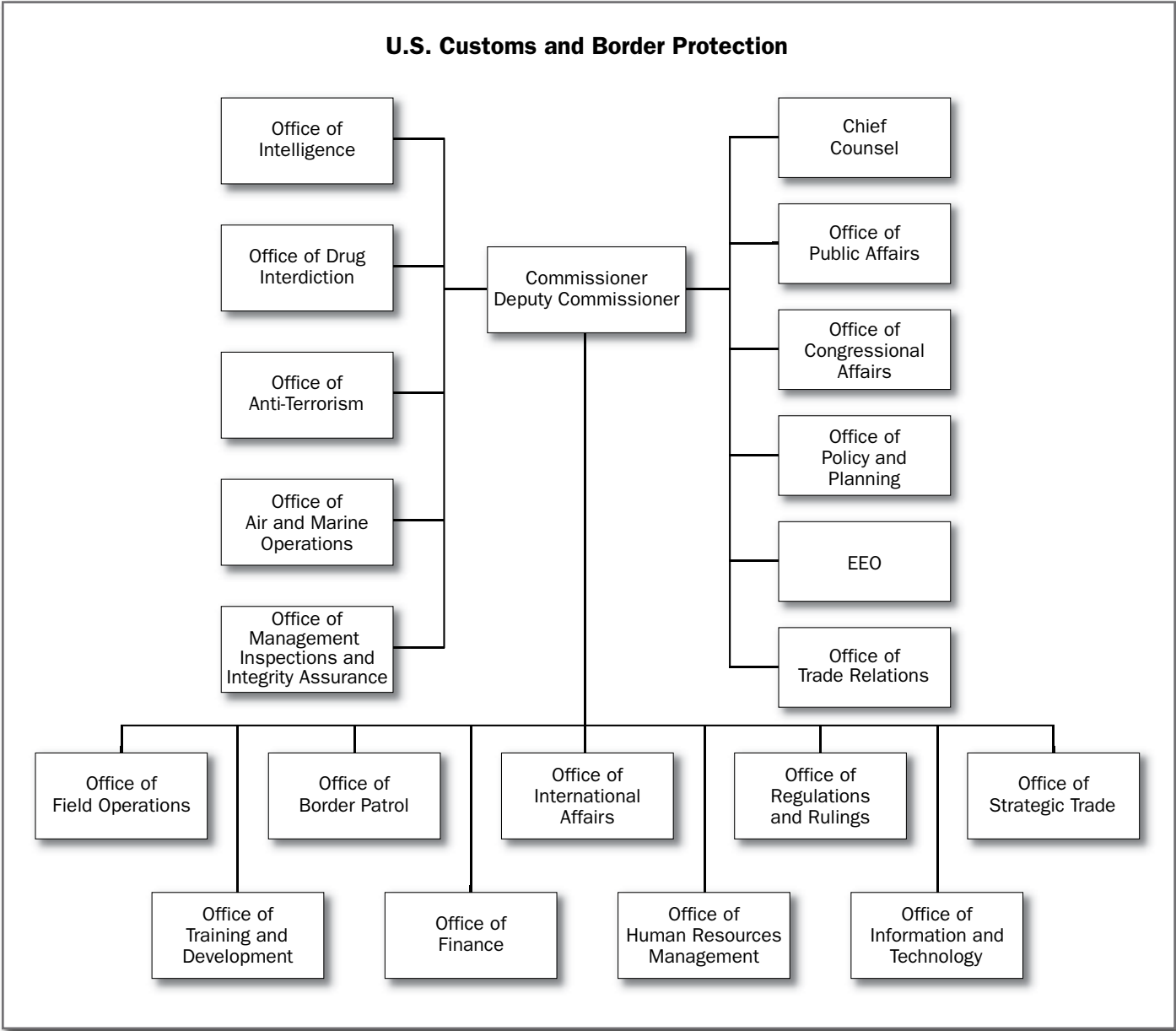
Border Surveillance

Beginning in November 2004, CBP conducted test programs using Unmanned Aerial Vehicles (UAV) for surveillance missions along the U.S./Mexico border in Arizona. The reports on the tests from OBP were very positive. As a result, CBP initiated a UAV program to be conducted by OBP this year. This unmanned aerial system supplements existing intrusion detection and intelligence-gathering technology. The real-time images obtained from the UAV enable proper assessment of intrusions and eliminate false-alarm responses, thereby increasing the patrolling effectiveness of field agents. This technology has proven highly successful in monitoring remote portions of the border, which are often difficult to reach safely or are unable to accommodate infrastructure devices.

Summary

In short, the trend continues to be deployment of state-of-the-art technology at U.S. POE and along our borders, and the expansion of our partnerships with the trade community and foreign governments in order to secure our country from terrorists and terrorist weapons while facilitating world commerce.

Organization



Headquarters

Office of the Commissioner

Robert C. Bonner was nominated by President George W. Bush to serve as Commissioner of the United States Customs Service on June 24, 2001. He was sworn in as the 17th Commissioner of U.S. Customs on September 24, 2001. Since March 1, 2003, he has served as the first Commissioner of CBP, the agency of DHS responsible for managing, controlling, and securing our nation's borders.

The Deputy Commissioner

Deborah Spero has served as Deputy Commissioner of CBP since April 2004. In this capacity, Ms. Spero is responsible for providing leadership and executive-level direction to CBP's day-to-day operations. This includes oversight of agency initiatives that facilitate the international movement of legitimate, low-risk goods and travelers while promoting effective border security.

Component Organizations and Field Structure

CBP is organized into 20 separate offices. Six of these are the Commissioner's Staff Offices, which are responsible for issues falling under the Commissioner's direct operational control and which report directly to the Commissioner. The Commissioner's Staff Offices are described briefly below. Assistant Commissioners of CBP head 14 additional offices.

Commissioner's Staff Offices

Office of Anti-Terrorism (OAT): Serves as the principal advisor to the Commissioner and other senior officials on CBP anti-terrorism programs. OAT monitors, coordinates, recommends, assesses, and participates in the development of all policy, programs, training, and matters relating to terrorism to ensure that CBP is maximizing its anti-terrorism efforts with regard to its security mission and within the federal law enforcement community and homeland security structure.

Office of Drug Interdiction (ODI): Serves as the principal advisor to the Commissioner and other senior officials on all aspects of CBP's counter-narcotics activities. ODI monitors, coordinates, recommends, assesses, and participates in the development of all appropriate policies, strategies, training, and detection capabilities needed to effectively carry out CBP's drug interdiction mission at, near, and beyond U.S. borders and POE. ODI is the CBP liaison with other federal, state, local, and tribal law enforcement agencies regarding illegal narcotic interdiction.

Office of Equal Employment Opportunity (EEO): Establishes policies and programs necessary to ensure compliance with the civil rights laws. The EEO office works aggressively to find solutions to workplace disputes through proactive training, early intervention, and mediation.

Office of Intelligence (OINT): Serves as the primary advisor on intelligence matters. OINT is responsible for disseminating all-source intelligence on border security issues to CBP personnel in direct support of their interdiction mission.

Office of Policy and Planning (OPP): Provides leadership to CBP's overall policy development, strategic planning, performance measurement, audit and evaluation processes.

Office of Trade Relations (OTR): Serves as the primary contact for the international trade community for advancing their issues and ideas to CBP leadership, and as the primary channel for CBP to advance its agenda to the trade community. OTR is also an objective, independent problem-resolution resource for the international trade community.

Assistant Commissioners' Offices

Office of Air and Marine Operations (AMO): The primary CBP component skilled in the use of air and marine surveillance systems to detect, monitor, intercept, and track suspect conveyances involved with the illegal movement of aliens, narcotics, and arms through source, transit, and arrival zones. AMO uses interdiction and enforcement techniques to detect, identify, apprehend, and investigate suspect aircraft and their operators intending to violate special use and/or protected airspace.

Office of Border Patrol (OBP): The CBP law enforcement organization with primary responsibility for preventing terrorists and terrorist weapons from entering the U.S. between the POE. OBP's traditional missions of interdicting illegal aliens, drugs, and those who smuggle them across our borders also remain critical. OBP agents are assigned to patrol more than 6,000 miles of America's land borders and are coordinated through 20 sectors.

Office of Chief Counsel (OCC): Serves as the chief legal officer of CBP and reports to the General Counsel of the Department of Homeland Security through the Assistant General Counsel, Border and Transportation Security. The Chief Counsel serves as the Ethics Officer for the organization and is the principal legal advisor to the Commissioner of CBP and its officers. The OCC provides legal advice to and legal representation of CBP officers in matters relating to the activities and functions of CBP.

Office of Congressional Affairs (OCA): Advises CBP managers on legislative and congressional matters, and assists members of Congress and their staffs in understanding current and proposed CBP programs.

Office of Field Operations (OFO): Enforces customs, immigration, and agriculture laws and regulations at U.S. borders, and has the primary responsibility for preventing terrorists and terrorist weapons from entering the U.S. at the POE. OFO maintains programs at 20 field operations offices, 308 POE, and 14 pre-clearance stations in Canada and the Caribbean. A Director of Field Operations heads each field operations office. Port Directors oversee POE in their operational areas, where virtually all conveyances, passengers, and goods legally enter and exit the U.S. OFO oversees the enforcement of laws and regulations while ensuring the safe and efficient flow of goods and people through the POE.

Office of Finance (OF) and Chief Financial Officer (CFO): Oversees all financial operations, procurement, asset management, and budget activities within CBP. OF is responsible for the administration of approximately \$6 billion that is budgeted annually for law enforcement and trade operations, and collection of over \$31 billion in revenue annually. This office is responsible for administering the broad range of financial management activities delineated under the CFO Act of 1990, including accounting, budgeting, procurement, logistics, financial systems, policy, planning, and audit oversight.

Overview of CBP

Office of Human Resources Management (HRM): Plans for human resources in support of business process improvement efforts, personnel services, training, labor management relations, and worker safety.

Office of Information and Technology (OIT): Provides integrated, comprehensive technical support to the mission of CBP, scientific and forensic laboratory services, and tactical communications support. OIT implements and supports information technology research and development functions, and automation and technological strategies. OIT personnel manage all computers and related resources, including all operational aspects of the Computer Security Program. They also establish requirements for computer interfaces between CBP and various trade groups and government agencies, and manage matters related to automated import processing and systems development.

Office of International Affairs (INA): Manages international activities and programs and conducts bilateral and multilateral discussions on behalf of CBP with other countries and international organizations. INA is an integral part of CBP's efforts to develop programs that effectively push our zone of security out beyond U.S. borders. INA also oversees the negotiation and implementation of all international agreements and is responsible for all foreign training and technical assistance provided by CBP.

Office of Management Inspections and Integrity Assurance (MIIA): Exercises oversight authority for all aspects of CBP operations, personnel, and facilities. MIIA is responsible for ensuring compliance with all bureau-wide programs and policies relating to corruption, misconduct, or mismanagement; investigating misconduct by CBP employees; and executing the internal security, integrity, and management self-inspection program. MIIA also conducts personnel security investigations; educates employees concerning ethical standards and integrity responsibilities; evaluates physical security threats to CBP facilities, and sensitive information; and inspects CBP operations and processes for managerial effectiveness and improvements.

Office of Public Affairs (OPA): Supervises the national and international public communication process in the following areas: press, Internet, audiovisual, editorial and speechwriting services, internal communication, and public information.

Office of Regulations and Rulings (OR&R): Develops, implements, and evaluates agency-wide programs, policies, and procedures pertaining to regulations and rulings issued by or affecting CBP. OR&R has a major responsibility for providing compliance information to members of the trade community. It provides policy and technical support to CBP, DHS, Congress, other government agencies and the importing public concerning CBP and the application of laws, regulations, and procedures administered by CBP. The office also issues rulings, legal determinations, and guidelines relating to claims, fines, penalties, forfeitures, classification and value of merchandise, carriers, drawback, bonds, goods entry, licensing, intellectual property rights, restricted merchandise, and disclosure law.

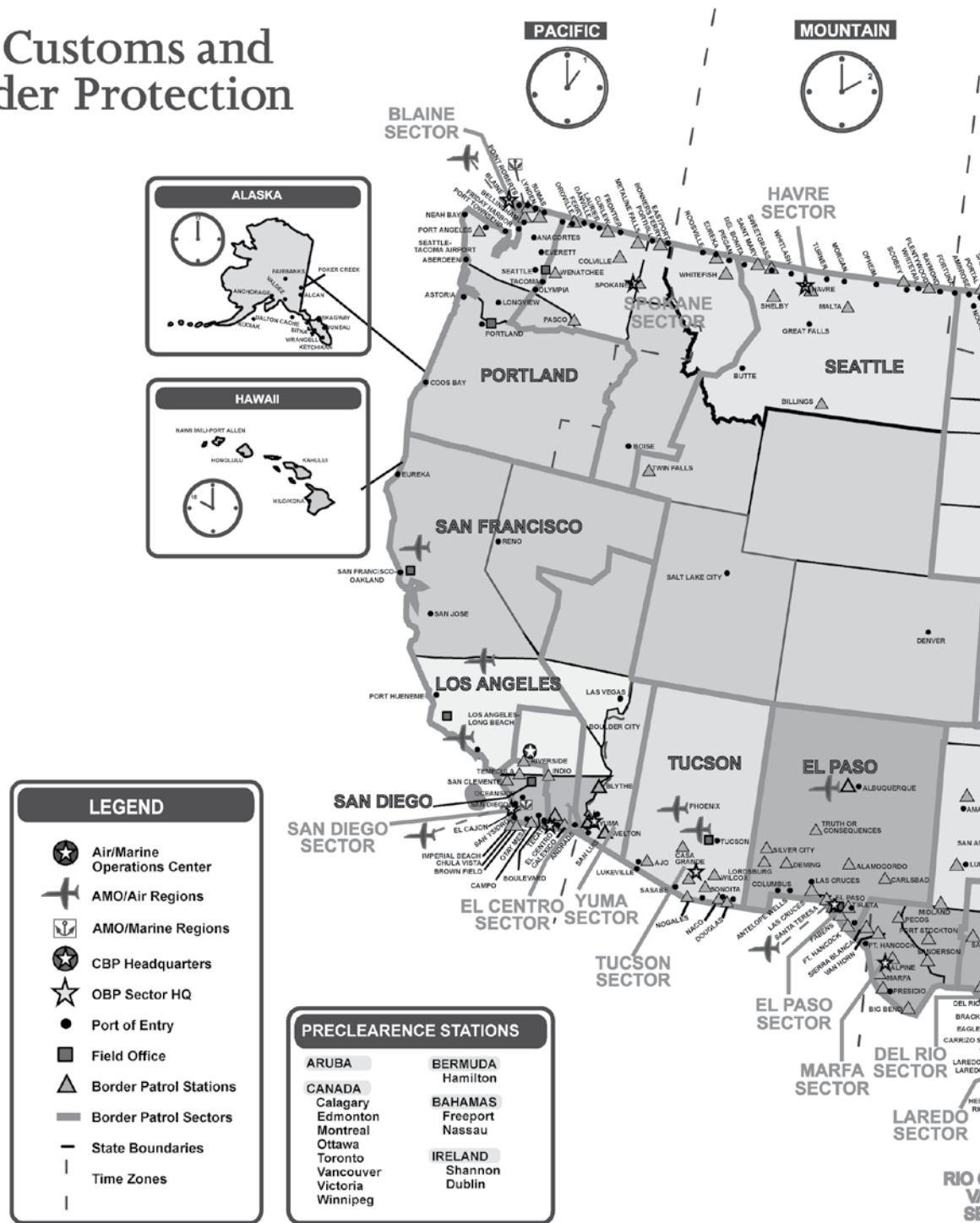
Office of Strategic Trade (OST): Identifies and confronts major trade issues facing the U.S. through advanced risk management techniques. OST is responsible for designing CBP's multi-discipline trade strategy, assessing risks by reviewing corporate controls over trade compliance and trade security in a post-entry audit process, partnering with the trade community to maintain a high level of compliance. OST also publishes compliance data that enables the trade community to initiate their own efforts to achieve compliance.

Office of Training and Development (OTD): Leads and directs all of CBP's training programs. OTD ensures that all training efforts support the CBP mission and strategic goals, meet the needs of a diverse and dispersed workforce, and contribute to measurable outcomes and results. OTD establishes standards and policies for designing, developing, delivering, and evaluating training. The office directly executes career development programs, basic and advanced training to all occupations, and management and executive development programs.

Overview of CBP



U.S. Customs and Border Protection



Performance Goals and Results

In FY 2005, CBP made significant progress toward the achievement of the long-term goals set forth in the Strategic Plan for FY 2005–2010. Agency progress is described in this Performance and Accountability Report (PAR). It is set forth in the context of the Government Performance and Results Act of 1993, which requires federal agencies to develop and implement processes to plan for and measure mission performance. Since CBP was formed five months into FY 2003, comparable data are provided for the first full year of CBP operations, FY 2004. Therefore, available data are insufficient for trend analysis.

Performance Management

The CBP comprehensive strategic planning process is driven by the need to address the global challenges of a secure homeland and economy. The CBP Strategic Plan is based on the priorities that were established and articulated by the Secretary, Homeland Security; the Under Secretary, Border and Transportation Security; and the Commissioner of CBP. The Strategic Plan is prepared with input from senior managers to reflect these priorities and supports the CBP budget submission. The development process has considered the DHS Strategic Plan, the National Strategy for Homeland Security, the National Money Laundering Strategy, the National Drug Control Strategy, Presidential Directives on National Security, and Executive Orders. In addition, the President's Management Agenda (PMA), budget justification materials, internal strategic planning initiatives, and the DHS Future Year Homeland Security Program (FYHSP), used for formulating, analyzing, and reporting the DHS planning and budgeting process, were considered. Finally, evaluations conducted through the Government Accountability Office (GAO), the Office of the Inspector General (OIG), and the Performance Assessment Rating Tool (PART) processes have also been assessed.

The CBP strategic planning framework is organized as follows:

- **Strategic Goal**—A high-level statement of what needs to be achieved
- **Objectives**—Specific statements of what is to be accomplished within the goal
- **Strategies**—Specific actions that are to be taken to reach an objective
- **Performance Measures**—What will be accomplished by carrying out the strategies

Each strategic goal is presented using the CBP strategic planning framework and has been determined based on future assumptions, previous accomplishments, and the need to integrate diverse CBP responsibilities effectively. The goals are further linked to specific objectives and strategies, as well as performance measures that are used to evaluate progress toward achieving the goals. This strategic planning process has resulted in the formulation of six strategic goals and associated objectives and measurements.

FY 2005 Performance by Strategic Goal

This section presents a discussion of selected FY 2005 performance objectives and related key performance measures for each of CBP's strategic goals.

Strategic Goal #1—Preventing Terrorism at the Ports of Entry



A CBP officer processes individuals as they enter the United States.

To achieve this strategic goal, CBP will implement the strategic plans for preventing terrorists and terrorist weapons from entering the U.S. Through improved targeting and intelligence, CBP will target and interdict terrorists and their weapons at the POE. Through various programs, CBP screens and examines passengers, cargo, and conveyances posing a potential high risk for terrorism prior to departing foreign ports for the U.S. To protect legitimate travel, trade, and the economy, CBP will extend its zone of security beyond the physical borders of the U.S. by stationing its officers in foreign countries and by partnering with international entities and the trade community.

Performance Objective—Improve the collection, use, analysis, and dissemination of intelligence to target, identify, and prevent potential terrorists and terrorist weapons from entering the U.S.

To achieve timely interdiction and enforcement actions, CBP will expand intelligence collection and dissemination, enhance information sharing capabilities, and increase the rapid exchange of intelligence and information to assist frontline officers in identifying potential threats.

To provide guidance on conducting specific operations in the field, CBP will form Intelligence Driven Special Operations and support the CSI assessment teams with intelligence updates.

Key Performance Measure—Percentage of worldwide U.S.-destined containers processed through CSI ports.

This measure is the percentage of worldwide U.S.-destined maritime containers (tracked via their respective bills of lading) processed through CSI ports as a deterrence action to detect and prevent terrorist weapons of mass destruction/effects (WMD/Es) and other potentially harmful materials from leaving foreign ports bound for U.S. ports.

FY 2004 Actual: 45% **FY 2005 Target: 68%** **Actual FY 2005 Performance: 73%**

Target Met

The FY 2005 target was met as a result of CSI's continuing success in gaining cooperation from foreign administrations during the year. The volume of several ports that became operational in the Middle East, Europe, and particularly in Asia, combined to reach the target.

Data Source: Shipping volume processed through the ports (bills of lading), Port Import Export Reporting Service.

Performance Goals and Results

Performance Objective—Improve identification and targeting of potential terrorists and terrorist weapons through risk management and automated advanced and enhanced information.

To improve targeting of cargo and passengers that pose a potential risk for terrorism, CBP will continue to use advance passenger and cargo information, as well as commercial and law enforcement databases, to prescreen, target, and identify potential terrorists and terrorist shipments and any related activity. To improve targeting and analysis, CBP will integrate existing databases and enhance its rules-based targeting system.

Key Performance Measure—Number of foreign mitigated examinations by category (CSI).

This proxy measure gauges the outcome of increased information sharing and collaboration by collocating CSI customs personnel at foreign ports. The measure is the number of examinations waived due to foreign customs sources using their own knowledge of shippers, information from their sources/databases, and intelligence sources to make a decision that an examination is not necessary.

FY 2004 Actual: 2,400 FY 2005 Target: 10,000 Actual FY 2005 Performance: 25,222

Target Met

The FY 2005 target was met as a result of the additional volume of maritime containers that CSI ports have evaluated. The additional volume stems from the ramping up of existing CSI ports and from the new CSI ports that became operational during FY 2005. New CSI ports in the Middle East, Europe, and Asia increased the volume processed through CSI ports by more than 60 percent.

Data Source: CBP Automated Targeting System.

Key Performance Measure—Targeting efficiency ratio (TER) in the air passenger environment.

TER is a measure of targeting effectiveness. TER is a ratio of the Enforcement Category 1 seizures divided by Random Category 1 seizures.

This ratio compares targeting with random sampling. Category 1 violations are serious drug and other violations.

FY 2004 Actual: 21.6% FY 2005 Target: 31.2% Actual FY 2005 Performance: 27.0%

Target Not Met

Although the target was not met, the FY 2005 performance was significantly higher than the prior year. To improve the TER, CBP must improve targeting. This will be accomplished through better training, improved canine enforcement, and more sophisticated NII equipment.

Data Source: Treasury Enforcement Communications System, Operations Management Reports, Automated Targeting System, Category 1 Violations.

Strategic Goal #2—Preventing Terrorism Between the Ports of Entry



A Border Patrol OH-6 helicopter provides aerial support for ground agents.

To achieve this strategic goal, CBP will implement the National Border Patrol Strategy, with the goal of establishing and maintaining operational control of the borders. To achieve this objective, CBP Border Patrol will employ a highly centralized and strengthened organizational model. Border security will be maximized with an appropriate balance of personnel, equipment, technology, communications capabilities, and tactical infrastructure. Further, CBP plans to expand the anti-terrorism mission of the Border Patrol through a national command structure, partnerships, intelligence sharing, training, technology, infrastructure support, and the use of specialized rapid-response teams.

Performance Objective—Maximize border security along the northern, southern, and coastal borders through an appropriate balance of personnel, equipment, technology, communications capabilities, and infrastructure.

Differing threats result from the diversity of the borders and require CBP to maintain flexibility in its border security approach. To support border control efforts between the POE, CBP will leverage technology, tactical infrastructure, and facilities to maximize the effectiveness of Border Patrol agents. CBP intends to add remote monitoring technology along the borders, which will improve our ability to assess threats and determine likely illegal border entry scenarios and locations.

Key Performance Measure—Border miles under operational control.

Border miles under operational control represent employment of the appropriate mix of personnel, technology, and tactical infrastructure necessary to reasonably ensure that illegal entrants are deterred from entering the U.S. or are detected and subsequently apprehended at, or as close to, the border as possible. The measure tells us how effectively we are stemming the flow of illegal cross-border activity in a given border area based on certain indicators such as reduction of violent crime, reductions in the flow of drugs, improvements in border community quality of life, and aggregate reductions in the number of apprehensions in a given area.

FY 2004 Actual: N/A **FY 2005 Target:** 150 Miles **Actual FY 2005 Performance:** 288 Miles

Target Met

One of the major factors leading to this success is continuance of the strategy to gain operational control in urban areas along the southwestern border. Through concentration of manpower and available supporting

Performance Goals and Results

technology and infrastructure, CBP has forced a large amount of illegal, cross-border activity from urban areas out into rural and remote areas. Subsequently, OBP began planning systematic employment of resources in certain rural and remote areas most likely to be used for illegal entry even before formally introducing the measure of border miles under operational control.

Data Source: After Action Reports, Daily Activity Reports, Automated Biometric Identification System, Enforcement Case Tracking System.

Strategic Goal #3—Unifying As One Border Agency



Upon arrival in the United States, a CBP officer interviews a passenger.

CBP continues to create a uniformed law enforcement workforce that works together in a professional manner with courtesy and respect toward the public, and that is recognized worldwide.

Key Performance Measure—Total number of linked electronic sources from CBP and other government agencies for targeting information.

Note: FY 2005 is a baseline year for this performance measure and data collected will be used to establish future year targets.



The mobile VACIS employs a gamma ray source to produce images of vehicles for contraband.

Strategic Goal #4—Facilitating Legitimate Trade and Travel

To improve risk assessment, CBP will use state-of-the-art modeling technologies that aid in the identification of high risk for commercial enforcement. CBP will continue deploying non-intrusive inspection technology, including radiation detection equipment such as personal radiation detectors, radiation isotope identification devices, and radiation portal monitors, as well as other screening technologies that support a layered inspection process. These and other initiatives will help identify risks while preventing unnecessary delays in the processing of cargo and people.

Performance Objective—Modernize automated import, export, and passenger processing systems to improve risk assessment and enforcement decision-making.

CBP is developing and improving systems that can provide advance manifest information for prescreening cargo containers, agricultural products, and passengers. Trade and passenger related intelligence will be analyzed and distributed in a fast, meaningful way. Systems capable of linking law enforcement and other agency databases into one integrated database will be developed.

Key Performance Measure—Percentage of internal population using the ACE functionality to manage trade information.

This measure indicates that CBP staff members have easier and quicker access to more complete, accurate, and sophisticated information. Increased use of ACE by CBP personnel also indicates its effectiveness in carrying out CBP's mission.

FY 2004 Actual: N/A FY 2005 Target: 8% Actual FY 2005 Performance: 8%

Target Met

Use of ACE is increasing through the deployment of e-Manifest: Trucks (Release 4) to both the northern and southern borders. The number of internal users has grown as planned in FY 2005 as a result of deployment to significant land border ports, including the Ambassador Bridge in Detroit.

Data Source: Automated Commercial Environment system-use metrics.

Key Performance Measure—APIS data sufficiency rate.

This measure is an estimate of the level of effectiveness of the primary processing method for identifying high-risk passengers through name checks against federal law enforcement databases. It is also the data sufficiency rate of information received for international air passengers. It is used to evaluate the quality/ usefulness of data received.

FY 2004 Actual: 98.0% FY 2005 Target: 99.1% Actual FY 2005 Performance: 98.6%

Target Almost Met (within 5 percent of target)

On April 7, 2005, the APIS Final Rule (AFR) Regulation was published. The AFR is the foundation without which it would be difficult, if not impossible, to effectively screen travelers against the consolidated terrorist watch list prior to departure.

APIS allows carriers to transmit passenger manifests to CBP electronically in advance of a vessel's or aircraft's arrival. Advanced electronic receipt of passenger and crew information provides an opportunity to target individuals prior to their arrival to concentrate on persons of interest and facilitate the flow of legitimate goods and services through the Federal Inspection Process. APIS is used as the backbone for the ATS.

Performance Goals and Results

Pursuant to the AFR, the APIS data for passenger flights into the U.S. must be submitted to CBP by the carrier 15 minutes after departure from a foreign port or place. For passenger flights leaving the U.S., data must be submitted 15 minutes prior to departure. For crew members (on passenger and all-cargo flights) and non-crew members (limited to all-cargo flights), data must be submitted 60 minutes prior to the departure of any covered flight from a foreign port, the U.S. port of departure, or the U.S. port of arrival enroute to a second U.S. port, as applicable. The AFR also provides for arrivals and departures of commercial vessels. In addition, the pre-departure data requirement will allow CBP to establish outbound compliance measures in the future.

Data Source: Airline passenger and crew manifest data.

Performance Objective—Promote industry and foreign government partnership programs.

Through work with the WCO and the G8, CBP continues to lead the international customs community in developing and ensuring rapid implementation of global supply-chain security standards. To increase maritime port security, the agency will work to internationalize C-TPAT through coordination with the international community. Supply-chain security specialists will be hired and trained to visit participant facilities to review security practices. CBP intends to build on cooperative smart border agreements and pursue criminal enterprises involved in internal conspiracies at the POE.

Key Performance Measure—Compliance rate for C-TPAT members with established C-TPAT security guidelines.

This is the percentage of C-TPAT members whose security procedures have been validated by CBP, were found to be acceptable, and meet the C-TPAT security guidelines. It also indicates the ability of C-TPAT companies to meet C-TPAT supply-chain security guidelines.

FY 2004 Actual: N/A FY 2005 Target: 98% Actual FY 2005 Performance: 97%

Target Almost Met

The high compliance target rate of 98 percent was met or exceeded in the first two quarters of FY 2005 measurement. This was due to the initial FY 2005 budget situation that allowed C-TPAT to perform only a limited number of validations. It did not permit C-TPAT to achieve a sufficient representative validation sample. In the third quarter of FY 2005, the C-TPAT travel budget and staffing situation improved significantly and C-TPAT implemented more stringent importer validation security criteria. This also permitted an increased number of C-TPAT security validations. The introduction of more stringent C-TPAT security criteria enables C-TPAT to measure compliance with a greater degree of accuracy. We intend to lower our target rate to accurately reflect expected compliance.

Data Source: C-TPAT Validation Reports.

Performance Objective—Facilitate international trade and travel.

Trade partnership programs will be expanded to facilitate legitimate international trade while securing the supply chain. To gain support and input for key initiatives, CBP plans to continue reaching out to the international trade and transportation communities. Pre-enrollment programs will allow CBP to expedite processing of prescreened and low-risk cargo and passengers, while high-risk cargo containers will be prescreened prior to entering the country.

Key Performance Measure—Average CBP exam reduction ratio for C-TPAT member importers compared with non-C-TPAT importers.

The average CBP exam reduction ratio for C-TPAT member importers compared with that of non-C-TPAT importers demonstrates how CBP facilitates trade transactions for known certified C-TPAT companies compared with non-C-TPAT importers.

FY 2004 Actual: N/A **FY 2005 Target:** 3.5 Times Less **Actual FY 2005 Performance:** 4.1 Times Less

Target Met

CBP is committed to offering reduced exams to companies that commit to securing their supply chains. Certified C-TPAT companies receive reduced targeting and exams per capita vs. non-C-TPAT importers, thus providing an incentive to join the program.

Data Source: CBP Automated Commercial System transaction data.

Key Performance Measure—Percentage of sea containers examined using NII technology.

The goal of this measure is to demonstrate improved efficiencies and therefore facilitate international trade and travel without compromising enforcement. It represents the total number of examinations conducted using NII technology in the sea environment versus the total number of sea containers arrived. NII systems provide a quick, safe, and effective method for screening cargo for Weapons of Mass Effect (WME) and other contraband while facilitating legitimate cross-border traffic. This technology provides a more efficient and effective alternative to 100 percent physical inspection of all targeted high-risk containers.

FY 2004 Actual: 5.2% **FY 2005 Target:** 5.0% **Actual FY 2005 Performance:** 8.1%

Target Met

The FY 2005 performance result is due to monitoring and close management of NII using enhanced data-gathering techniques. Statistics on NII usage are received from the field on a daily basis, versus monthly in prior years, and are compiled by the Interdiction and Security Division. This system allows quicker corrective action to be taken when needed. The Program Manager ensures that the equipment is being properly utilized to inspect incoming cargo for WME and other contraband. Since FY 2003, there has been a demonstrated increase in the percentage of cargo that is examined using NII imaging equipment.

Data Source: Operations Management Reports Data Warehouse.

Performance Goals and Results

Strategic Goal #5—Protecting America and Its Citizens



A CBP canine inspects baggage at an airport.

CBP protects the American people and the national economy by prohibiting the introduction of contraband such as illegal drugs, counterfeit goods, and other harmful materials and organisms into the U.S. CBP continues to develop technology to enhance targeting of high-risk cargo and individuals attempting entry into the country. Enforcement activities related to counterfeit trademark violations have increased to protect intellectual property rights.

Performance Objective—Reduce the importation of all prohibited or illegal drugs and other materials that are harmful to the public or may damage the American economy.

CBP monitors connections between illegal drug trafficking and terrorism, and coordinates efforts to sever such connections while interdicting illegal narcotics. Canine resources are used to detect illegal aliens, explosives and chemicals, and to interdict drugs and agricultural commodities. CBP works closely with other government agencies, industry, and stakeholders to measure agricultural risk and develop mitigation strategies to prevent harmful organisms from entering the U.S. intentionally or by accident.

Key Performance Measure—International air passenger compliance with agricultural quarantine regulations (percentage compliant).

The air passenger performance measure represents random inspection of travelers and cargo. The data collected from inspection not only help CBP to estimate the percentage of compliance but also provide information concerning various agricultural items seized and a better understanding of the threat risk of agricultural pest and diseases entering the U.S.

FY 2004 Actual: 97.0% **FY 2005 Target: 97.0%** **Actual FY 2005 Performance: 95.8%**

Target Almost Met

Using the U.S. Department of Agriculture's scientific risk assessment methods together with CBP's advanced targeting systems has allowed CBP to be more effective and efficient at preventing animal and pest disease entry, and improve CBP's ability to safeguard U.S. agricultural resources. CBP is increasing the Agricultural Specialist staffing at the POE and is in the process of cross training CBP Officers to support the Agricultural Specialists.

Data Source: Agricultural Quarantine Inspection monitoring activities. Compliance rates are based on statistical sampling.

Strategic Goal #6—Modernizing and Managing



A CBP chemist reads a DNA profile to determine the origin of a commodity.

To achieve the other five strategic goals, CBP must put forth a continuous effort to enhance and modernize its Information Technology (IT) systems and technical support services. CBP will assist its customers and stakeholders in obtaining and managing the financial resources and assets needed to accomplish the mission. To provide customers and stakeholders with accurate, timely, and integrated data, CBP intends to maintain and improve financial and administrative systems, along with increasing the use of e-commerce.

laboratory and scientific services, tactical radio communication, field equipment maintenance/support, and 24/7 customer assistance.

CBP continues to support its anti-terrorism mission and its widely dispersed field workforce by deploying a modern, robust, secure technology infrastructure that provides global systems integration and information warehousing for a completely automated trade, border security, and mission support environment. CBP intends to build and maintain a unified tactical communications capability that supports the needs of the agency and is coordinated within DHS.

Key Performance Measure—Percentage of time the Treasury Enforcement Communication System (TECS) is available to end users.

TECS is a CBP mission-critical law enforcement application designed to identify individuals and businesses suspected of or involved in violation of federal law. TECS is also a communications system permitting message transmittal among DHS law enforcement offices and other national, state, and local law enforcement agencies. TECS provides access to the NCIC and the National Law Enforcement Telecommunication Systems (NLETS), with the ability to communicate directly with state and local enforcement agencies. NLETS provides direct access to state motor vehicle departments. The performance measure above quantifies as a percentage related to an established service level objective, the end-user experience regarding TECS service availability.

FY 2004 Actual: N/A **FY 2005 Target:** 90.0% **Actual FY 2005 Performance:** 96.2%

Target Met

As a result of implementing end-to-end monitoring for TECS, a number of significant availability problems were identified and dramatically improved upon. In December 2004, response times were improved by

Performance Goals and Results

approximately 60 percent after the discovery of network configuration errors, which manifested as slow response times at several remote sites. Another site was found to have been using a slower connection by default instead of an available T1 line. In April 2005, the Topaz monitor uncovered an unused T1 circuit at another site, which should have been balancing the network load. After that correction, response times during peak workload hours improved by 90 percent.

Data Source: Topaz, a Web-based application that enables users to track and analyze availability and system performance problems.

Data Integrity

General: CBP is dedicated to providing clear, concise, relevant, and reliable data for managerial decision making and program management. We also strive to ensure that the data are both quantifiable and verifiable, and provided in a timely manner. In place are internal management controls, including ongoing data review, annual self-inspections, audit trails, restricted access to sensitive data, and separation of duties, that are designed to safeguard the integrity and quality of CBP's data resources.

Data Systems and Controls: Performance data for the planned performance measures are generated by automated management information and workload measurement systems and reports as a by-product of day-to-day operations. The data systems and controls are routinely monitored by all levels of management. CBP management has reviewed the performance measurement data for FY 2005 and has determined, with reasonable assurance, that the data are complete, accurate, and reliable.

Audit of the FY 2005 Financial Statements: DHS's independent auditors, KPMG LLP, audited the CBP Balance Sheet in accordance with the Chief Financial Officer's Act of 1990. The objective of the audit is to determine whether the Balance Sheet fairly presents the Assets, Liabilities, and Net Position of CBP. An audit consists of examining, through various sampling methods, evidence supporting the amounts and disclosures in the financial statements.

Systems and Controls

Overview

To comply with the provisions of the Federal Managers' Financial Integrity Act of 1982 (FMFIA), the Federal Financial Management Improvement Act of 1996 (FFMIA), and the Office of Management and Budget (OMB) Circular A-123, the Commissioner of CBP must provide annual assurance statements to DHS regarding CBP's management and financial system controls. Any material weaknesses or deficiencies are reported in the statements. Information for these statements is derived from GAO and DHS OIG reviews, independent audits, and self-assessments provided by CBP management.

Self-Inspection Program (SIP)

SIP was developed to emphasize managerial accountability and provide a mechanism for management oversight of CBP programs and processes. SIP, along with other methodologies, helps CBP meet federal management control requirements established by the FMFIA and OMB Circular A-123. SIP provides a method by which CBP headquarters and field managers conduct internal assessments of their operations and report on the results by completing self-inspection worksheets developed by national program managers. In completing and certifying the results of their self-inspections, managers assess whether their area of responsibility is properly implementing established programs, policies, procedures, and strategies that support mission/program accomplishment; ensure the security of funds, property, and other agency resources; and are in compliance with federal laws and regulations. Results of the assessments are entered into the Self-Inspection Reporting System. Managers are responsible for implementing corrective action plans to resolve identified deficiencies.

Analysis of the self-inspection data allows executive managers and national program managers to gauge the level of compliance with critical program management controls and to identify programmatic issues that require national attention.

Federal Managers' Financial Integrity Act

In accordance with the FMFIA and OMB circular A-123, CBP has evaluated its management controls and financial management systems for the fiscal year ending September 30, 2005. Through our annual self-assessment process and OIG reviews, we are reporting two open material weaknesses from prior years, and one new material weakness.

Drawback Controls

Drawback involves the reimbursement of duties paid by an importer on materials or merchandise imported into the U.S. and subsequently exported. In 1993, deficiencies were reported in the controls to prevent excessive drawback claims. ACS cannot compare entry and export information electronically; therefore, CBP uses a risk-based sampling approach to review drawback claims. However, the methodology used did not provide adequate measurement and statistical projection of the results of the control process. In FY 2005, a statistically valid methodology was developed to partially resolve the issue, but the final solution is to provide electronic tracking and control of drawback claims from importation through exportation. This solution is not targeted for completion until the implementation of ACE Release 7 in 2009.

Core Financial Systems

This material weakness was first reported in 1993 when it was noted that CBP core financial systems were not integrated and did not provide certain financial information for managing operations. With the implementation of SAP Release 3 in October 2004, 8 of the 10 corrective actions have been completed. The implementation of ACE Release 5 will create an Accounts Receivable Subsidiary Ledger that will reside in ACE. The target for completion is March 2007. The final issue will be the integration of the ACE Accounts Receivable Subsidiary Ledger with SAP. This integration is targeted for completion in October 2007.

System Logical Access Controls Over Network Assets

In the FY 2004 DHS financial statements audit report, DHS OIG noted that improvements were still needed in CBP security controls affecting Headquarters and National Data Center management and staff system access to CBP applications and data. To address this material weakness for the Windows NT® platform, the DHS Active Directory Infrastructure is required. For Novell Network and Sun Microsystems servers, alternative strategies are required.

Sixteen milestones have been identified to correct this weakness. Five were completed in FY 2005, three will be completed in FY 2006, and the remaining milestones are targeted for completion in FY 2007.

Federal Financial Management Improvement Act

The FFMIA instructs agencies to maintain an integrated financial management system that complies with federal system requirements, Federal Accounting Standard Advisory Board standards, and the U.S. Standard General Ledger at the transaction level. Although CBP has made significant improvements toward compliance through the implementation of SAP financial software, we cannot claim full compliance due to the deficiencies previously discussed.

Federal Information Security Management Act

The Federal Information Security Management Act (FISMA) requires agencies to conduct an annual self-assessment review of their information technology security program, and to develop and implement corrective actions for identified security weaknesses and vulnerabilities. CBP has completed a comprehensive self-assessment for FY 2005 and can state with reasonable assurance that the IT security controls are in compliance with FISMA, with the exception of the material weakness previously discussed.

Financial Statements Audit

The DHS OIG contracted with KPMG LLP for the audit of CBP's FY 2005 Balance Sheet. The auditor found that the Balance Sheet is fairly stated in all material respects and issued an unqualified opinion.

Financial Management

CBP strives to be a leader in financial management by providing high-quality, cost-efficient services through customer involvement and modern, integrated financial systems. Our goal is to continuously develop and implement more effective and efficient methods to obtain, manage, and deliver the financial resources, capital assets, and financial services to meet or exceed the needs of customers and stakeholders. Because CBP is also a revenue collection agency, it is imperative that we accurately identify amounts owed CBP, and efficiently and effectively collect, report, and account for revenue.

Providing top-quality financial management services includes translating workloads and requirements into budget requests for needed resources; allocating and distributing funds after resources are made available; acquiring and distributing goods and services that are used to accomplish the CBP mission; managing and paying for those goods and services; and reporting on the costs and use of personnel, goods, and services.

In October 2004, CBP implemented the third and final release of the SAP financial software. SAP is a modular PC-based integrated financial management and reporting system that provides full materials management, budgeting, and general and subsidiary ledger capabilities. The impact of SAP/R3 is far-reaching, as it has put into place new automated, integrated processes for core finance and accounting, budget execution, and reporting.

President's Management Agenda

The PMA's aggressive strategy for improving the management of the Federal Government focuses on five management areas across the government including financial performance and budget and performance integration. The strategy in these areas is designed to strengthen the accountability of the use of taxpayer resources, to provide accurate and reliable financial information in support of management decisions, and to meet all legal requirements.

CBP has fully supported the implementation of the DHS Financial Accountability Act. The Act requires DHS and its components to meet internal control requirements in advance of all other Federal agencies. In implementing the DHS Financial Accountability Act, the DHS Chief Financial Officer has established a strategy of eliminating material weaknesses in internal control over financial reporting and obtaining an unqualified audit opinion on the DHS Consolidated Financial Statements. In support of this strategy, CBP has:

- Undergone a stand-alone Balance Sheet Only audit for FY 2005;
- Fully participated in the DHS resource management transformation initiative called eMerge² that will deliver consolidated enterprise solutions for budget, financial management, acquisition, grants and asset management support; and
- Fully contributed to the formation of the DHS Internal Control Committee established to implement the internal control provisions of the DHS Financial Accountability Act.

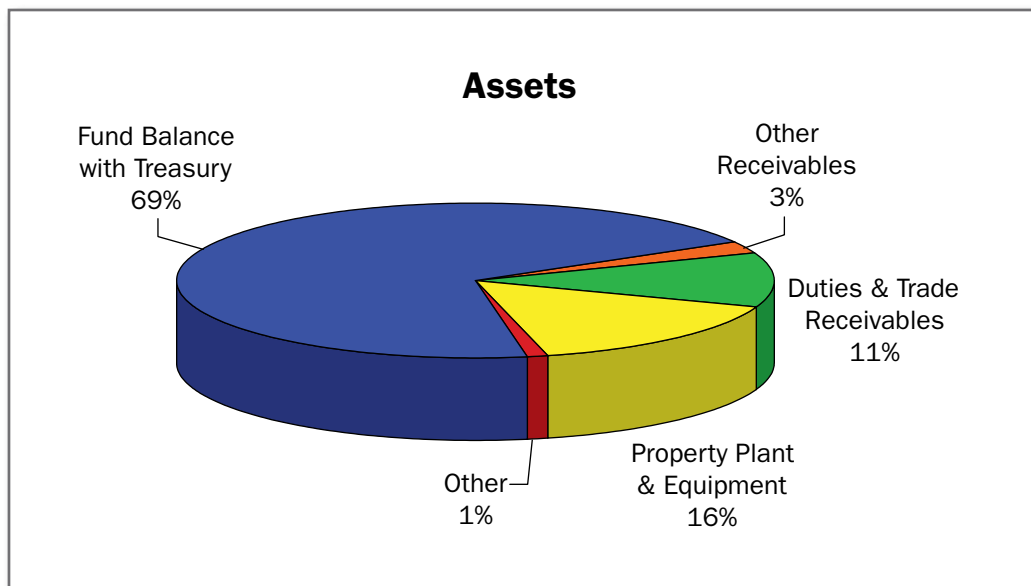
Financial Summary

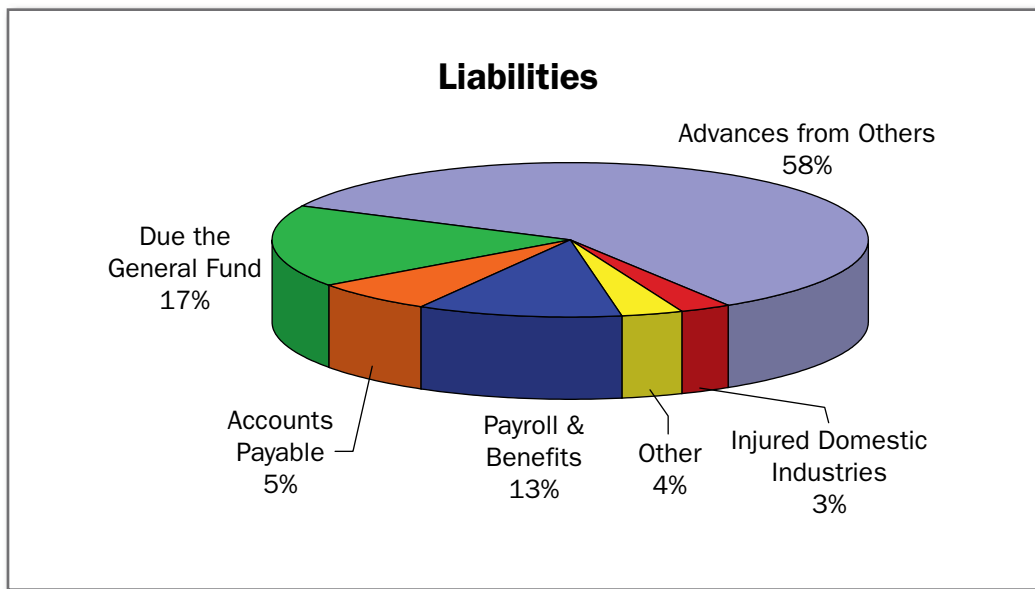
Overview of the Financial Data

The Balance Sheet has been audited by our independent auditors, KPMG LLP, and has been found to have no material deficiencies as evidenced by the audit report on page 80 of the Financial Section. This will be the only CBP financial statement reported for FY 2005.

Consolidated Balance Sheet

The Balance Sheet presents the property owned by CBP (assets), amounts owed by CBP (liabilities), and the difference (net position). As of September 30, 2005, total assets were \$12.3 billion, a 24 percent increase over FY 2004*. As of September 30, 2005, total liabilities were \$8.2 billion, an increase of 34 percent over FY 2004. The following charts present the major categories of assets and liabilities as a percentage of the total.





*The FY 2004 Balance Sheet was unaudited.

Improper Payments Information Act of 2002

Background

The initiative to reduce improper payments is a key component of the PMA. The Improper Payments Information Act of 2002 (IPIA) requires federal agencies to report annually on the extent of improper payments in those programs that are susceptible to significant improper payment and the actions they are taking to reduce such payments.

Recovery Auditing

In FY 2005, CBP initiated recovery auditing of contractor payments in accordance with Section 831 of the Defense Authorization Act for FY 2002, which requires agencies that enter into contracts with a total value in excess of \$500 million in a fiscal year to initiate a program to identify and recover payment errors. In FY 2005, CBP solicited Horn and Associates to perform a recovery audit on \$1.2 billion in vendor payments in FY 2004. Reports from the contractor do not indicate any significant recovery activity. Less than 0.003 percent, or about \$34,000, of the amount reviewed was determined as improper. Recovery efforts for this amount are under way. The contractor has reported no systematic causes for the improper payments.

Compliance Measurement

The Compliance Measurement Program collects objective statistical data to determine the compliance level of commercial imports with U.S. trade laws, regulations, and agreements, and estimates the revenue gap. The revenue gap is a calculated estimate that measures potential loss of revenue owing to noncompliance with trade laws, regulations, and agreements using a statistically valid sample of the revenue losses and overpayments detected during Compliance Measurement exams conducted throughout the year. CBP has calculated the preliminary FY 2005 revenue gap to be \$409 million. The preliminary overall trade compliance rate for FY 2005 is 95%. With overall compliance at a high level, CBP has been able to emphasize matters of significant trade risk. The final overall trade compliance rate and estimated revenue gap for FY 2005 will be issued in January 2006.

Limitations of the Financial Statements

While the consolidated balance sheet has been prepared from the books and records of CBP in accordance with the formats prescribed by the Office of Management and Budget, the consolidated balance sheet is in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

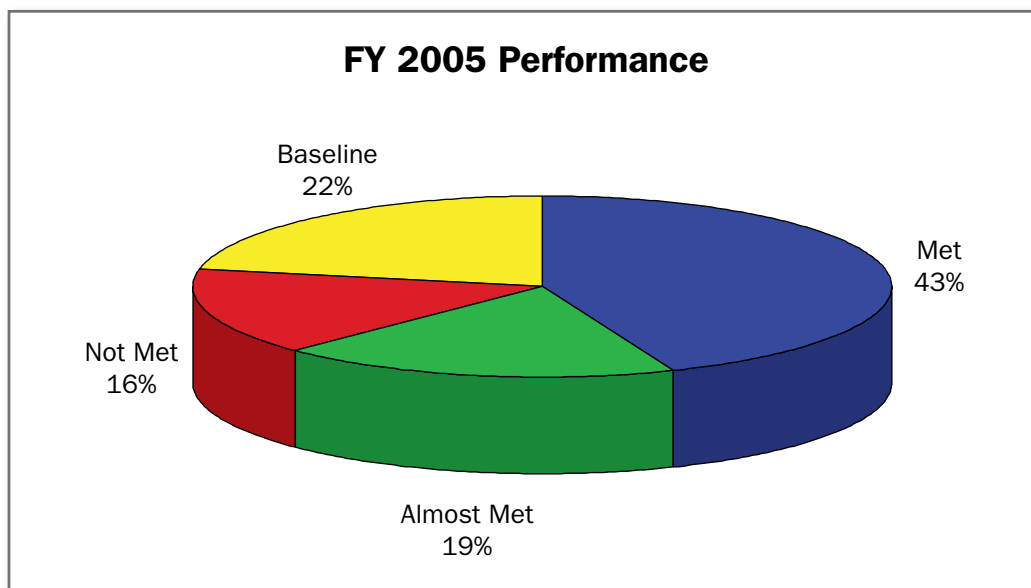
The consolidated balance sheet should be read with the realization that it is for a component of a sovereign entity. Liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation by Congress, and payment of liabilities, other than for contracts, can be abrogated by the sovereign entity.



Performance Section

Performance Summary

The chart below highlights the degree of success CBP achieved in attaining the FY 2005 performance goals. The performance measures are established as an integral part of the CBP Strategic Plan and the DHS FYHSP. The measurement data are collected through various systems and methods and then entered into the FYHSP system for tracking and compiling for management decision-making and year-end reporting. Of the 33 performance measures outlined in the CBP Strategic Plan, 7 are new measures, in which data collected in FY 2005 will be used as the baseline to establish future year targets, and 1 was dropped from the tracking system when it was determined that the ACE project would not have progressed far enough to provide accurate and reliable data. Of the 25 remaining performance measures, 14 were met or exceeded, 6 were almost met (within 5 percent of target), and 5 were not met.



The performance data presented in this report are in accordance with the guidance provided by OMB. The Data Integrity discussion in the Performance Goals and Results section of "Management's Discussion and Analysis" (page 34) describes CBP's commitment to providing quality and timely performance information to increase its value to CBP management and interested parties. CBP managers routinely use these data to improve the quality of program management and to demonstrate accountability of program results.

Individual Performance Measure Results

This section describes CBP's FY 2005 results for each FYHSP performance measure by the strategic goal and performance objective they support. Although some of the performance measures may relate to more than one performance objective, each performance measure was aligned under the single objective considered most relevant or meaningful. Discussions of the key performance measures can be found in the "Management's Discussion and Analysis" section under Performance Goals and Results, beginning on page 24.

Strategic Goal #1—Preventing Terrorism at the Ports of Entry

Performance Objective—Improve the collection, use, analysis, and dissemination of intelligence to target, identify, and prevent potential terrorists and terrorist weapons from entering the U.S.

Key Performance Measure—Percentage of worldwide U.S.-destined containers processed through CSI ports. (See page 25 for detailed discussion.)

Performance Objective—Improve identification and targeting of potential terrorists and terrorist weapons, through risk management and automated advanced and enhanced information.

Key Performance Measure—Number of foreign mitigated examinations by category (CSI). (See page 26 for detailed discussion.)

Key Performance Measure—Targeting efficiency ratio (TER) in the air passenger environment. (See page 26 for detailed discussion.)

Performance Measure—TER in the land passenger environment.

FY 2004 Actual: N/A **FY 2005 Target:** 7.1 **Actual FY 2005 Performance:** 12.8

Target Met

This measure is a statistically valid estimate of the effectiveness of primary processing in identifying high-risk passengers or vehicles that are in violation of any major category violation. The ratio represents targeting efforts as the number per thousand times better than random sampling. The effectiveness of risk management and targeting will allow CBP to better utilize manpower and other resources to secure our borders against the threat of terrorists, terrorist weapons, and other illegal activity.

Data Source: Treasury Enforcement Communications System, Operations Management Reports, Automated Targeting System, Category 1 Violations.

Performance Objective—Push the nation's zone of security outward beyond its physical borders through partnerships and extended border initiatives to deter and combat the threat of terrorism.

Performance Measure—Number of operational CSI ports.

FY 2004 Actual: 34 **FY 2005 Target:** 45 **Actual FY 2005 Performance:** 40

Target Not Met

The number of foreign ports operating within the CSI program provides CBP with a method to determine if we are on track to meet the long-term goal of processing 86 percent of all sea containers destined for the

Performance Summary

U.S. prior to lading at overseas ports. Although we did not meet the target, the 40 ports we now have on board the CSI program account for over 73 percent of all sea containers destined for the U.S., which is ahead of that target, and puts us well on the way to achieving our long-term goal.

Data Source: CSI Division Status Reports.

Strategic Goal #2—Preventing Terrorism Between the Ports of Entry

Performance Objective—Maximize border security along the northern, southern, and coastal borders through an appropriate balance of personnel, equipment, technology, communications capabilities, and infrastructure.

Key Performance Measure—Border miles under operational control. (See page 27 for detailed discussion.)

Performance Measure—Increased agent time on line watch. (FY 2005 is the baseline year.)

Strategic Goal #3—Unifying As One Border Agency

(See page 28 for detailed discussion.)

Strategic Goal #4—Facilitating Legitimate Trade and Travel

Performance Objective—Modernize automated import, export, and passenger processing systems to improve risk assessment and enforcement decision-making.

Key Performance Measure—Percentage of internal population using the ACE functionality to manage trade information. (See page 29 for detailed discussion.)

Key Performance Measure—APIS data sufficiency rate. (See page 29 for detailed discussion.)

Performance Objective—Promote industry and foreign government partnership programs.

Key Performance Measure—Compliance rate for C-TPAT members with established C-TPAT security guidelines. (See page 30 for detailed discussion.)

Performance Measure—Average cost per CSI port to achieve operational status.

FY 2004 Actual: N/A **FY 2005 Target:** \$403,000 **Actual FY 2005 Performance:** \$227,324 (estimate)

Target Met

This measure represents the average total cost of site preparation, equipment purchases, and infrastructure implementation in order for the planned number of CSI ports for the fiscal year to become operational. The measure allows CBP to gauge the efficiency with which CSI ports are brought to operational status. The goal is to bring the ports up to operational standards at or under the targeted cost.

The estimate for FY 2005 is based on actual data for the second through the fourth quarter. Data for the first quarter of FY 2005 was not captured.

Data Source: Expenditure reports of actual set-up funds spent on each port.

Performance Measure—C-TPAT validation labor efficiency rate.

FY 2004 Actual: N/A **FY 2005 Target:** \$6,700 **Actual FY 2005 Performance:** \$8,075

Target Not Met

The measure provides a method of gauging the labor efficiency in validating the supply-chain security of C-TPAT participants. The average number of C-TPAT Supply Chain Specialists is multiplied by an average wage/grade factor and then divided by the number of validations completed. The C-TPAT program was not fully funded for validation travel until March 2005 resulting in fewer validations than expected.

Data Source: CBP personnel and C-TPAT data.

Performance Objective—Enforce all U.S. trade, immigration, drug, consumer protection, intellectual property, and agricultural laws and regulations at the borders.

Performance Measure—Percentage of travelers compliant in the air passenger environment.

FY 2004 Actual: 99.2% **FY 2005 Target:** 99.3% **Actual FY 2005 Performance:** 99.0%

Target Almost Met

The measure estimates the threat approaching the POE and the effectiveness of officer targeting toward that threat. It encompasses enforcement action at the POE and a sampling of passengers considered low risk who would not otherwise be examined. These data are used to determine the percentage of air travelers who are compliant with laws, rules, regulations, and agreements enforced by CBP.

Data Source: Treasury Enforcement Communications System, Category I and II violations.

Performance Measure—Percentage of travelers compliant in the vehicle passenger environment.

FY 2004 Actual: 99.9% **FY 2005 Target:** 99.9% **Actual FY 2005 Performance:** 99.9%

Performance Summary

Target Met

The rate of passenger compliance is determined by estimating the total number of violations present in the population of vehicles approaching the POE and dividing by the total number of vehicles subject to random sampling. This provides an estimate of the percentage of vehicles approaching the POE that are not in violation of any laws, rules, regulations, or agreements enforced by CBP.

Data Source: Treasury Enforcement Communications System.

Performance Objective—Facilitate international trade and travel.

Key Performance Measure—Average CBP exam reduction ratio for C-TPAT member importers compared with non-C-TPAT importers. (See page 31 for detailed discussion.)

Key Performance Measure—Percentage of sea containers examined using non-intrusive inspection technology (NII). (See page 31 for detailed discussion.)

Performance Measure—Average wait time. (FY 2005 is the baseline year.)

Performance Measure—Time savings to process U.S./Mexico border Free and Secure Trade (FAST) lane transactions.

FY 2004 Actual: N/A **FY 2005 Target:** 2,600 Hours **Actual FY 2005 Performance:** 3,404 Hours

Target Met

FAST is an expedited clearance program for known low-risk shipments. Importers, manufacturers, and carriers that implement CBP approved security measures will be afforded a dedicated lane identified as FAST by CBP. Monitoring this measure indicates the total time savings for primary inspection lane processing and allows CBP to determine the success of the FAST program. FAST is integrated with the C-TPAT program. In FY 2005, increased levels of C-TPAT and FAST participation led to a higher number of U.S./Mexico FAST lane transactions than targeted.

Data Source: CBP Automated Commercial System.

Performance Measure—Percentage of truck and rail containers examined using NII.

FY 2004 Actual: 26.6% **FY 2005 Target:** 10.0% **Actual FY 2005 Performance:** 28.9%

Target Met

The goal of this measure is to demonstrate improved efficiencies and therefore facilitate international trade and travel without compromising enforcement. NII systems provide a quick, safe, and effective method for screening truck and rail containers for WME and other contraband while facilitating legitimate cross-border traffic. The higher the percentage of cargo screened using NII, the greater the likelihood of detecting

potentially hazardous materials and preventing them from entering the U.S. This technology provides a more efficient and effective alternative to 100 percent physical inspection of all targeted high-risk containers.

Data Source: Operations Management Reports Data Warehouse.

Performance Objective—Ensure revenue protection.

Performance Measure—Reduction in lost revenue: trade. (FY 2005 is the baseline year.)

Strategic Goal #5—Protecting America and Its Citizens

Performance Objective—Reduce the importation of all prohibited or illegal drugs and other materials that are harmful to the public or may damage the American economy.

Key Performance Measure—International air passenger compliance with agricultural quarantine regulations (percentage compliant). (See page 32 for detailed discussion.)

Performance Measure—Border vehicle passengers in compliance with agricultural quarantine regulations (percentage compliant).

FY 2004 Actual: 96.0% **FY 2005 Target: 96.4%** **Actual FY 2005 Performance: 93.7%**

Target Almost Met

The measure is based on data gathered at the various land POE and through statistical sampling, passenger compliance rates are developed and reported. Analysis of the compliance rates allows CBP to develop trends and assessments of threats to the agricultural economy of the U.S.

Data Source: Agricultural Quarantine Inspection monitoring activities. Compliance rates are based on statistical sampling.

Performance Measure—Number of pounds of cocaine seized at the POE (thousands of pounds).

FY 2004 Actual: 44.6 **FY 2005 Target: 43.1** **Actual FY 2005 Performance: 42.8**

Target Almost Met

Performance Measure—Number of pounds of heroin seized at the POE (thousands of pounds).

FY 2004 Actual: 2.8 **FY 2005 Target: 3.5** **Actual FY 2005 Performance: 2.3**

Target Not Met

Performance Summary

Performance Measure—Number of pounds of marijuana seized at the POE (thousands of pounds).

FY 2004 Actual: 653 FY 2005 Target: 743 Actual FY 2005 Performance: 531.7

Target Not Met

These measures represent the amount of illegal narcotics seized by or with the participation of CBP officers at the POE from passengers, vehicles, commercial and private aircraft, vessels, trucks, cargo, and railcars. A consistent drug flow was assumed in establishing the targets for the Strategic Plan. However, changes in drug flow to U.S. POE may impact actual results in comparison with the established targets.

The overall impact of drug interdiction efforts must be evaluated in light of total federal supply and demand reduction efforts. Narcotics seizure estimates are soft estimates due to the related unknowns such as trafficking patterns. An outcome measure that quantifies CBP's contribution to the removal of available illegal drugs can be calculated with the current data in conjunction with flow estimates from the Office of Drug Control Policy when they become available.

Data Source: Treasury Enforcement Communications System.

Performance Objective—Provide support to protect events and key assets of national interest, and mitigate the risks of terrorism and other threats to critical government operations.

Performance Measure—Percentage of no-launches to prevent acts of terrorism and other illegal activities (AMO). (FY 2005 is the baseline year.)

Performance Measure—Number of launches not completed within the targeted time frame of request to launch for the alert aircraft. (FY 2005 is the baseline year.)

Strategic Goal #6—Modernizing and Managing

Performance Objective—Improve budgeting and financial processes, policies, and systems, ensuring accurate, reliable allocation of and accounting for expenditure of funds, collection of revenues, and maintenance of reliable, timely, and accurate financial data for decision making and reporting.

Performance Measure—Percentage of trade accounts with access to ACE functionality to manage trade information.

FY 2004 Actual: N/A FY 2005 Target: 1% Actual FY 2005 Performance: 1%

Target Met

The number of ACE accounts established with the trade community compared with the target number of accounts over time demonstrates the usefulness to the trade of electronic filings versus paper filings with CBP. ACE also allows companies to move away from a transaction-based payment environment (i.e., payment for each individual entry) to account-based payments. The growth in the number of ACE accounts is primarily dependent on the successful deployment of ACE cargo processing at land border ports.

Data Source: CBP Modernization Office.

Performance Measure—Operational requirements-based budgeting program (ORBBP).

FY 2004 Actual: N/A **FY 2005 Target:** 20 Sectors **Actual FY 2005 Performance:** 20 Sectors

Target Met

Establishment of the ORBBP in the operating sectors will allow CBP Border Patrol to gain operational control in areas deemed high priority for terrorist threat potential or other national security issues. This program links operational plans to budget requests on an annual basis. The operational objectives determine the necessary resources to accomplish them. The budget requests, in turn, are directly associated with the resources required to meet the operational objectives.

Data Source: Yearly sector operational plans.

Performance Objective—Maintain a reliable, stable, and secure IT infrastructure and an array of technical support services, including laboratory and scientific services, tactical radio communication, field equipment maintenance/support, and 24/7 customer assistance.

Key Performance Measure—Percentage of time the Treasury Enforcement Communication System (TECS) is available to end users. (See page 33 for detailed discussion.)

Performance Measure—Cost per transaction to ensure TECS availability to end users. (FY 2005 is the baseline year.)

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Financial Section



Message from the Chief Financial Officer

Customs and Border Protection (CBP) operates in a dynamic environment. The mission of CBP's financial office is to support homeland security by providing our customers with the resources and services necessary to carry out their mission.

The goals and strategies for achieving this mission are to deliver quality, cost-effective customer service by: providing leadership to promote effective and efficient management of resources and assets; creating strong internal and external customer partnerships; fostering a knowledgeable, skilled agency workforce and empowering customers to manage their work and make responsible decisions. This also includes reviewing, updating, and documenting business processes; implementing strategic human capital initiatives within the Office of Finance to provide the right people at the right time for all staffing needs; and enhancing integration of financial and other automated systems.

Fiscal Year (FY) 2005 has been another successful year for CBP in the area of financial management culminating with the Agency receiving an unqualified (clean) opinion on its balance sheet. The unqualified opinion on our FY 2005 balance sheet attests to the fact that CBP's balance sheet is fairly presented and demonstrates discipline and accountability in the execution of our fiscal responsibilities as stewards of CBP programs.

Based on internal management evaluations, and in conjunction with the results of an independent financial statements audit, CBP, except as noted in the "Management's Discussion and Analysis" section and the Independent Auditor's Report, can provide reasonable assurance that the objectives of Section 2 (Management Controls) and Section 4 (Financial Management Systems) of the Federal Managers' Financial Integrity Act have been achieved. We are in the process of correcting these issues, as well as auditor-identified weaknesses in internal controls reported this year. CBP's "Systems and Controls" section provides information on CBP's plan to eliminate these reportable conditions. I believe that reporting these weaknesses reflects positively on our commitment to identify and address financial management challenges that are inevitable as we carry out what is the most complex organizational restructuring to be undertaken in the last 50 years.

Over the past year, CBP has made significant progress in the implementation of our critical financial systems' initiative as part of our continuing effort to modernize our financial systems. CBP's enterprise resource planning system solution, Systems, Applications and Products (SAP), provides the tools for enhanced customer service and facilitates a shift in the role of finance from a transaction process/record-keeping function to a more analytical and integrated decision-making function.

CBP continues to provide oversight and direction for continued successful implementation of shared services and the development of any new shared service agreements to ensure that all programmatic support issues and problems are identified and resolved expeditiously. CBP led efforts to complete FY 2005 tri-bureau agreements to promptly implement service delivery areas in the areas of fleet management, printing and graphics, forms management, construction, and facilities leasing. CBP developed procedures and set up roles in SAP to enable the efficient establishment and smooth operations of shared services for property and other business areas.

I am also proud of our record in implementing the President's Management Agenda (PMA) Improved Financial Performance initiative and remaining "green" for progress in that category. The agency has corrective action plans in place to overcome the challenges and barriers that inhibit our ability to obtain a "green" score in the status category.

In the upcoming year, CBP will continue to focus on the initiatives related to the PMA, fulfill the requirements of the Department of Homeland Security's Financial Accountability Act, continue with the implementation of Automated Commercial Environment and continue to make improvements in CBP's security controls. Our goal remains to provide timely, reliable and useful financial management information to Congress and to the American public.

A handwritten signature in black ink that reads "R. Balaban". The signature is fluid and cursive, with a long horizontal line extending to the right from the end of the name.

Richard L. Balaban
Chief Financial Officer

November 15, 2005

Consolidated Balance Sheet

**Customs and Border Protection
Consolidated Balance Sheet
As of September 30, 2005
(Dollars in Thousands)**

	<u>2005</u>
ASSETS (Note 2)	
Intra-governmental Assets	
Fund Balance with Treasury (Note 3)	\$ 8,545,942
Advances and Prepayments	62,514
Other Intra-governmental Assets	
Accounts Receivable (Note 4)	44,437
Receivables Due from Treasury—Refund and Drawback (Note 4)	143,848
Total Intra-governmental Assets	8,796,741
Accounts Receivable, Net (Note 4)	147,298
Tax, Duties and Trade Receivables, Net (Note 5)	1,400,073
Operating Materials and Supplies (Note 6)	53,749
Property, Plant and Equipment, Net (Note 8)	1,917,722
Other Assets (Note 9)	
Cash and Other Monetary Instruments	6,982
Advances and Prepayments	2,642
TOTAL ASSETS	\$12,325, 207
LIABILITIES (Note 10)	
Intra-governmental Liabilities	
Due to the Treasury General Fund	1,419,307
Accounts Payable	86,235
Other Intra-governmental Liabilities	
Accrued FECA Liability	160,280
Employer Benefits and Taxes	32,565
Advances from Others	4,045
Total Intra-governmental Liabilities	1,702,432

(Continued)

Consolidated Balance Sheet

Customs and Border Protection
Consolidated Balance Sheet (continued)
As of September 30, 2005
(Dollars in Thousands)

	<u>2005</u>
Accounts Payable	\$ 300,096
Advances from Others (Note 11)	4,812,831
Accrued Payroll and Benefits (Note 12)	880,087
Other Liabilities	
Refunds Payable (Note 13)	118,469
Software License Agreements (Note 14)	74,855
Injured Domestic Industries (Note 15)	236,890
Environmental Liabilities (Note 16)	43,447
Probable Legal Contingent Liabilities (Note 16)	61,727
TOTAL LIABILITIES	<u>8,230,834</u>
Commitment and Contingencies (Note 16)	
NET POSITION	
Unexpended Appropriations	2,070,402
Cumulative Results of Operations	2,023,971
TOTAL NET POSITION	<u>4,094,373</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$12,325,207</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Reporting Entity

U.S. Customs and Border Protection (CBP), with headquarters in Washington, D.C., was created on March 1, 2003, and is a component organization of the U.S. Department of Homeland Security (DHS). CBP is the unified border agency whose priority mission is the prevention of terrorist and terrorist weapons from entering the U.S. CBP is also responsible for administering the U.S. Trade Program and U.S. Narcotics Enforcement Program. CBP meets these responsibilities by: (1) enforcing the laws governing the flow of merchandise or commerce across the borders of the U.S., (2) assessing and collecting duties, taxes, and fees, on imported and other goods and services, and (3) enforcing drug-related and other laws and regulations of the U.S. on behalf of Federal agencies and/or in conjunction with various state, local, and other Federal agencies and foreign countries.

Substantially all of the duty, tax, and fee revenues collected by CBP are remitted to various General Fund accounts maintained by Treasury. Treasury further distributes these revenues to other Federal agencies in accordance with various laws and regulations. CBP transfers the remaining revenue (generally less than two percent of revenues collected) directly to other Federal agencies, the Governments of Puerto Rico and the U.S. Virgin Islands, or retains funds as authorized by law or regulations. Refunds of revenues collected from import/export activity are recorded in separate accounts established for this purpose and are funded through permanent indefinite appropriations. These activities reflect the non-entity, or custodial, responsibilities that CBP, as an agency of the Federal Government, has been authorized by law to enforce.

Basis of Accounting and Presentation

The consolidated balance sheet has been prepared from CBP accounting records in conformity with generally accepted accounting principles (GAAP). GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which was designated the official accounting standard-setting body of the Federal Government by the American Institute of Certified Public Accountants.

The consolidated balance sheet should be read with the realization that it is for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that payment of liabilities other than for contracts can be abrogated by the sovereign entity.

The CBP consolidated balance sheet is reported using the accrual basis of accounting. In accordance with OMB Circular A-136, intra-departmental transactions and balances have been eliminated from the consolidated balance sheet.

Assets and Liabilities

Intra-governmental assets and liabilities result from activity with other Federal agencies. All other assets and liabilities result from activity with parties outside the Federal Government, such as domestic and foreign persons, organizations, or governments.

Fund Balance with Treasury, Cash and Other Monetary Assets

Entity Fund Balances with Treasury are the amounts remaining as of September 30, 2005, from which CBP is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law. Non-entity Fund Balance with Treasury represents funds available to pay refunds and drawback claims of duties, taxes, fees, and, other non-entity amounts to be distributed to the Treasury General Fund and other Federal accounts in a future period.

Undeposited cash collections represent monies to be distributed in a future period. A timing difference occurs when cash is received and applied to a specific revenue type in one period, and the deposit and distribution of funds occurs in a future period. Monetary instruments are held by CBP in lieu of an importer/broker filing a surety bond. Corresponding liabilities are recorded for amounts expected to be allocated in future periods to Federal agencies.

Advances and Prepayments

Intra-governmental advances and prepayments consist of amounts paid to Federal agencies prior to CBP receipt of goods and services. Advances and prepayments to the public consist mostly of unliquidated antidumping/countervailing duties.

Accounts Receivable

Intra-governmental accounts receivable represent amounts due from Federal agencies. These receivables are expected to be fully collected. Accounts receivable from reimbursable services and user fees represent amounts due from non-federal sources for services performed. These receivables are net of amounts deemed uncollectible which are determined by considering the debtor's current ability to pay, the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity. The user fee receivable is based on a calculated estimate using historical user fee receivables.

Receivable Due From Treasury

The Receivable Due From Treasury represents amounts to be provided by Treasury to fund accrued liabilities.

Tax, Duties, and Trade Receivables

Accounts receivable consist of duties, user fees, fines and penalties, refunds and drawback overpayments, and interest associated with import/export activity, which have been established as a specifically identifiable, legally enforceable claim and remain uncollected as of year-end. These receivables are net of amounts deemed uncollectible which were determined by considering the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity. CBP's accounting policy for non-entity receivables is described in more detail in Note 5, Tax, Duties, and Trade Receivables, Net.

Consolidated Balance Sheet

Operating Materials and Supplies

Operating Materials and Supplies consist of aircraft and marine parts and materials to be consumed in CBP's operations. Aircraft parts and materials are recorded at average unit cost, and marine parts and materials are recorded using the First-In-First-Out valuation method. Both methods approximate actual acquisition costs. When ultimately consumed in CBP operations, an operating expense is recorded.

Seized and Forfeited Property

Prohibited seized and forfeited property results primarily from CBP criminal investigations and passenger/cargo processing. Seized property is not considered an asset of CBP and is not reported as such in CBP's financial statements; however, CBP has a stewardship responsibility until the disposition of the seized items are determined, i.e., judicially or administratively forfeited or returned to the entity from which it was seized. Non-prohibited seized property, including monetary instruments, real property and tangible personal property of others in the actual or constructive possession of CBP will be transferred to the Treasury Forfeiture Fund and is not presented in the accompanying CBP balance sheet.

Forfeited property is property for which the title has passed to the U.S. Government. As noted above, non-prohibited forfeited property or currency becomes assets of the Treasury Forfeiture Fund. However, prohibited forfeited items, such as counterfeit goods, narcotics, or firearms, are held by CBP until disposed or destroyed. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*, analyses of changes in seized and forfeited property of prohibited items are disclosed in Note 7.

CBP will also take into custody, without risk or expense, merchandise termed "general order property" which for various reasons cannot legally enter into the commerce of the United States. CBP's sole responsibility for the general order property is to ensure the property does not enter the Nation's commerce. If general order property remains in CBP custody for a prescribed period of time, without payment of all estimated duties, storage and other charges, the property is considered unclaimed and abandoned and can be sold by CBP at public auction. Auction sales revenue in excess of charges associated with the sale or storage of the item is remitted to the Treasury General Fund. In some cases, CBP incurs charges prior to the sale and funds these costs from entity appropriations. Regulations permit CBP to offset these costs of sale before returning excess amounts to Treasury.

Property, Plant and Equipment

CBP capitalized property, plant and equipment with an acquisition value of \$5,000 or greater and a useful life of 2 years or greater if acquired prior to October 1, 1995. Beginning October 1, 1995, CBP capitalizes property, plant and equipment with an acquisition value of \$50,000 or greater, and a useful life of 2 years or greater. The property, plant and equipment assets acquired by CBP from the former Immigration and Naturalization Service as part of the formation of the Department of Homeland Security were capitalized if the acquisition value was \$25,000 or greater. As of October 1, 2000, CBP implemented SFFAS No. 10, *Accounting for Internal Use Software*. SFFAS No. 10 requires the capitalization of all internal use software, including commercial off-the-shelf, contractor developed and internally developed software. As a result, CBP

began capitalizing costs associated with the development of internal use software. In addition, CBP implemented the SFFAS No. 10 recommendation to apply capital lease accounting concepts to software license fee agreements that give CBP the “right to use” the software. Prior to October 1, 2000, costs relating to the development of internal use software and “right to use” license agreements were expensed.

Expenditures for normal repairs and maintenance are charged to expense as incurred. Expenditures greater than \$50,000 for improving or rebuilding an asset and that increase an asset’s useful life are capitalized. Prior to October 1, 1995, expenditures greater than \$5,000 for improving or rebuilding an asset and that increased an asset’s useful life were capitalized.

Depreciation and amortization are computed using the straight line method over the estimated useful lives of the assets ranging from 3 to 30 years for equipment and software, 2 to 30 years for leasehold improvements, and 6-40 years for buildings, structures and land improvements. Amortization of capitalized software begins on the date of acquisition if purchased or when the module or component has been successfully tested if contractor or internally developed.

Commercial/Travel Payable

A liability is recorded for an accounts payable accrual from commercial/travel activities. A portion of this liability is determined using a calculated estimate. This estimate is based on a ratio developed using historical subsequent disbursements and undelivered orders and applying the ratio to the undelivered orders as of September 30, 2005.

Other Non-Entity Items in CBP Custody

CBP has the authority, in accordance with provisions of the Federal Crime Code and Federal Rules of Criminal Procedures, to retain property within its custody for evidentiary purposes. Because this property is not seized under seizure and forfeiture laws, it cannot become property of the U.S. Government and is intended to be returned to the owner at some future date. This evidence is not disclosed in the financial statements or a related note as the amount is not significant, but does represent a fiduciary responsibility of CBP.

Accrued Annual, Sick and Other Leave and Compensatory Time

Annual leave, compensatory time, and other leave time are accrued when earned. The accrual is presented as a component of the payroll and benefits liability in the balance sheet and is adjusted for changes in compensation rates and reduced for annual leave taken. Sick leave is not accrued when earned, but is expensed when taken.

Pension Costs, Other Retirement Benefits, and Other Post-Employment Benefits

Most CBP employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS). CBP contributes 8.5 percent of base pay for regular employees, and 9 percent for law enforcement agents. Employees hired after December 31, 1983 are automatically covered by the Federal Employees’ Retirement System (FERS) and Social Security. A primary feature of FERS is that it offers a savings plan to

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which CBP automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, CBP also contributes the employee's matching share for Social Security. For the FERS basic benefit, CBP contributes 11.2 percent of base pay for regular employees and 23.8 percent for law enforcement agents. The pay base for determining CBP contributions to CSRS and FERS for inspectors and canine officers includes regular pay and up to a maximum of \$17,500 in certain overtime earnings for FY 2005. CBP recognizes the full costs of its employees' pension benefits; however, the liability associated with these costs is recognized by the Office of Personnel Management (OPM).

Similar to Federal retirement plans, OPM, rather than CBP, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program and the Federal Employees Group Life Insurance Program.

A liability for other post-employment benefits, which includes all types of benefits to former or inactive (but not retired) employees, their beneficiaries, and covered dependents, is also recognized.

Workers' Compensation

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The actual liability is presented as a component of intra-governmental other liabilities and the actuarial liability is presented within accrued payroll and benefits in the accompanying balance sheet. The FECA program is administered by the U.S. Department of Labor (DOL), which initially pays valid claims and subsequently seeks reimbursement from Federal agencies employing the claimants. Reimbursement to DOL on payments made occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intra-governmental liability are made available to CBP as part of its annual appropriation from Congress in the year in which the reimbursement takes place.

Additionally, the actuarial liability due to the public includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Based on information provided by DOL, DHS allocates the actuarial liability to its bureaus and department offices based on the payment history for the bureaus and department offices. The accrued liability is not covered by budgetary resources and will require future funding.

Unexpended Appropriations

Unexpended appropriations represent the amount of CBP unexpended appropriated spending authority as of fiscal year-end that is unliquidated or is unobligated and has not lapsed, been rescinded, or withdrawn.

Cumulative Results of Operations

Cumulative results of operations primarily represent the excess of user fee revenues over related expenses. It also reflects the net investment in property and equipment, and operating materials and supplies held for use, and transfers in of equipment, materials, and supplies from other Federal agencies without

reimbursement. Also, included as a reduction in cumulative results of operations, are liabilities incurred, which will require funding from future appropriations, such as accumulated annual and other leave earned but not taken, accrued workers' compensation, and contingent liabilities.

Use of Estimates

Management has made certain estimates and assumptions in the reporting of assets, liabilities, and note disclosures in the consolidated balance sheet and accompanying notes. Actual results could differ from these estimates. Significant estimates include: year-end accruals of accounts payable, contingent legal and environmental liabilities, accrued workers' compensation, allowance for doubtful accounts receivable, retirement and post-retirement benefits assumptions, and certain non-entity receivables and payables related to custodial activities.

Taxes

CBP, as a Federal bureau, is not subject to Federal, state or local income taxes and accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

2. Non-Entity Assets

Non-entity assets as of September 30, 2005, consists of the following (in thousands):

	2005
Intra-governmental	
Fund Balance with Treasury	\$ 5,062,751
Receivables Due from Treasury (Note 4)	143,848
Total Intra-governmental	5,206,599
Public	
Cash and Other Monetary Instruments (Note 9)	6,350
Tax, Duties and Trade Receivables, Net (Note 5)	1,400,073
Property, Plant and Equipment, Net	6,156
Total Public	1,412,579
Total Non-Entity Assets	6,619,178
Total Entity Assets	5,706,029
Total Assets	\$12,325,207

Non-entity Fund Balance with Treasury as of September 30, 2005, includes approximately \$4.6 billion (in deposit fund) in duties collected by CBP for unliquidated antidumping/countervailing duties and \$316.4 million (in special fund) for Injured Domestic Industries as of September 30, 2005. These assets offset accrued liabilities as of September 30, 2005.

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Non-entity Fund Balance with Treasury consists of special and deposit funds, permanent appropriations, and miscellaneous receipts that are available to pay non-entity liabilities. Non-entity receivables due from Treasury represent an estimate of duty, tax, and/or fee refunds and drawbacks that will be reimbursed by a permanent and indefinite appropriation account and will be used to pay estimated duty refunds and drawbacks payable of \$118.4 million as of September 30, 2005. Duties and taxes receivable from public represents amounts due from importers for goods and merchandise imported to the United States, and upon collection, will be available to pay the accrued intra-governmental liability due to the Treasury General Fund, which equaled \$1.4 billion as of September 30, 2005.

3. Fund Balance with Treasury

Fund Balance with Treasury as of September 30, 2005, consists of the following (in thousands):

<u>2005</u>	<u>Entity</u>	<u>Non-Entity</u>	<u>Totals</u>
Appropriated Funds	\$2,500,129	\$ 105,152	\$2,605,281
Trust Funds	11,435	—	11,435
Special Funds	968,562	316,428	1,284,990
Deposit Funds	3,065	4,641,171	4,644,236
Totals	<u>\$3,483,191</u>	<u>\$5,062,751</u>	<u>\$8,545,942</u>

Appropriated funds consist of amounts appropriated annually by Congress to fund the operations of CBP. The non-entity appropriated fund balance represents permanent, indefinite appropriations to pay refunds and drawback claims of duties, taxes, or fees. The balance is presented as a non-entity balance because the refund and drawback payments are associated with CBP custodial activity of collecting revenue on behalf of the Federal Government.

Trust funds are both receipt accounts and expenditure accounts that are designated by law as a trust fund. The entity trust fund balances result from CBP authority to use the proceeds from general order items sold at auction to offset specific costs incurred by CBP relating to their sale, to use available funds in the Salaries and Expense Trust Fund to offset specific costs for expanding border and port enforcement activities, and to use available funds from the Harbor Maintenance Fee Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee.

Special funds are receipt funds earmarked for specific purposes. Entity amounts comprising the special fund balances result from CBP authority to assess and collect passenger and conveyance-related user fees, CBP authority to assess and collect fees associated with services performed at certain small airports or other facilities, and CBP authority to retain amounts needed to offset costs associated with collecting duties, taxes, and fees for the Government of Puerto Rico. As of September 30, 2005, CBP User Fees Account contained approximately \$740.5 million; CBP's services at Small Airports account contained approximately \$5 million; and the Refunds, Transfers and Expenses of Operation of Puerto Rico account contained approximately \$27.4 million. CBP also has entity special funds for immigration user fees of \$179 million as of September 30, 2005. Non-entity fund balance includes monies received in connection

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with antidumping/countervailing duty orders and findings to qualifying Injured Domestic Industries of \$316.4 million as of September 30, 2005.

The entity deposit fund balance represents amounts received as an advance that are not accompanied by an order. Once the order is received the deposit fund balance is decreased. Non-entity deposit fund represents collections that do not belong to the Federal Government and for which final disposition has not been determined at year-end, including \$4.6 billion of unliquidated antidumping/countervailing duties as of September 30, 2005.

Status of Fund Balance with Treasury as of September 30, 2005, consists of the following (in thousands):

<u>2005</u>	<u>Entity</u>	<u>Non-Entity</u>	<u>Totals</u>
Unobligated balance available	\$ 202,924	\$5,062,751	\$5,265,675
Unobligated balance unavailable	557,069	—	557,069
Obligated balance not yet disbursed	2,075,067	—	2,075,067
Restricted unobligated funds	648,131	—	648,131
Totals	<u>\$3,483,191</u>	<u>\$5,062,751</u>	<u>\$8,545,942</u>

Portions of the unobligated balance available, unobligated balance unavailable, and obligated balance not yet disbursed contains CBP's user fees account balance of \$640 million as of September 30, 2005, which is restricted by law in its use to offset specific costs incurred by CBP until made available as provided in Appropriation Acts.

Portions of the unobligated balance unavailable include amounts appropriated in prior fiscal years that are not available to fund new obligations. However, it can be used for upward and downward adjustments for existing obligations in future years.

The obligated balance not yet disbursed represents amounts designated for payment of goods or services ordered but not received or goods and services received but for which payment has not yet been made.

CBP returned to Treasury \$23.4 million for indefinite no-year authority, and \$1.9 million in authority for obligations pursuant to public law during the year ending September 30, 2005.

In accordance with Public Law 101-510, CBP is required to automatically cancel obligated and unobligated balances of appropriated funds five years after a fund expires. Obligations that have not been paid at the time an appropriation is canceled may be paid from an unexpired appropriation that is available for the same general purpose. As of September 30, 2005, CBP canceled \$11.1 million from FY 2001 annual appropriations, of which \$8.9 million was deobligated. Based on historical activity, CBP estimates obligations related to canceled appropriations that will be paid from future appropriations would not exceed \$1 million in any fiscal year.

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4. Accounts Receivable

Intra-governmental Accounts Receivable

Accounts receivable due from other Federal agencies, as of September 30, 2005, totals \$44.4 million, and are considered fully collectible.

Accounts Receivable, Net

Receivables from reimbursable services are recognized for work or services provided to a private party. By law, collections of these receivables can be credited to the appropriation accounts from which the related costs were paid. As of September 30, 2005, reimbursable service receivables total \$18 million, and are considered fully collectible.

Title 19 of the United States Code, chapter 1, section 58c, authorizes CBP, formerly known as the United States Customs Service, to collect user fees for services provided in connection with the processing of commercial air and commercial vessel passengers and loaded or partially loaded railroad cars carrying passengers or commercial flights arriving into the customs territory as defined in general note 2 of the Harmonized Tariff Schedule of the United States (some exceptions apply).

Receivables accrue for commercial airline and commercial vessel fees on a quarterly basis and the payments are due to CBP before the date that is 31 days after the close of the calendar quarter in which the fees are collected. Railroad car fees accrue on a monthly basis and the payments are due to CBP on or before the date that is 60 days after the applicable month. As of September 30, 2005, the Customs user fee receivables totals \$69 million and are net of uncollectible amounts totaling \$3 million.

Title 8 of the United States Code, chapter 12, subchapter II, part IX, section 1356 authorizes CBP, formerly known as the Immigration and Naturalization Service, to collect immigration user fees for inspection or pre-inspection of passengers arriving at a port of entry in the United States (as defined in Title 8, chapter 12, subchapter I, section 1101) aboard a commercial aircraft and commercial vessel (some exceptions apply). Receivables accrue for commercial airline and commercial vessel user fees on a quarterly basis. Payment is due at any time before the date that is thirty-one days after the quarter in which the fees are collected, except for the July and August fees collected from airline passengers shall be made ten days before the end of the fiscal year. The first quarter payment shall include any collections made in the preceding quarter that were not remitted with the previous payment. As of September 30, 2005, the Immigration user fee receivables totals \$60 million and are net of uncollectible amounts totaling \$14 million.

Receivables Due from Treasury—Refund and Drawback

Non-entity receivables due from Treasury represent an estimate of duty, tax, and/or fee refunds and drawbacks that will be reimbursed by a permanent and indefinite appropriation account and will be used to pay estimated duty refunds and drawbacks of \$143.8 million, as of September 30, 2005.

5. Tax, Duties, and Trade Receivables, Net

Receivables as of September 30, 2005, are as follows (in thousands):

<u>Receivable Category</u>	2005		
	<u>Gross Receivable</u>	<u>Amounts Uncollectible</u>	<u>Total Net Receivables</u>
Duties	\$1,142,830	\$ (96,774)	\$1,046,056
Excise Taxes	87,925	(5,729)	82,196
User fees	84,533	(1,575)	82,958
Fines/penalties	1,033,688	(957,347)	76,341
Interest	120,983	(107,147)	13,836
Antidumping/ Countervailing Duties	240,494	(142,126)	98,368
Refunds and drawback	1,609	(1,291)	318
Totals	<u>\$2,712,062</u>	<u>\$(1,311,989)</u>	<u>\$1,400,073</u>

CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. At the time importers bring merchandise into the United States, they are required to file CBP entry documents. Generally, within 10 working days after CBP releases the merchandise into the U.S. commerce, the importer is to submit an entry document with payment of estimated duties, taxes, and fees. In FY 2004, CBP began implementing periodic monthly payment that requires payment of estimated duties, taxes, and fees on the 15th day of the month following release. A receivable of \$1.2 billion was recorded for 721,470 entries for merchandise released into commerce on or before September 30, 2005, of which \$284 million related to importers using the periodic monthly payment. It is CBP policy to track and demand payment of unpaid estimated duties, taxes and fees receivable amounts by establishing a liquidated damage case which generally results in a fines and penalty type receivable.

A fine or penalty is established when a violation of import/export law is discovered. CBP assesses a liquidated damage or penalty for these cases to the maximum extent of the law. After receiving the notice of assessment the importer or surety has 60 days to either file a petition requesting a review of the assessment or make payment of the assessed amount. If a petition is received and CBP finds there are extenuating circumstances, such as an incorrect assessment, which warrants mitigation, relief is granted as prescribed by CBP mitigation guidelines and directives. Until this process has been completed, CBP records an allowance on fines and penalties of approximately 92.75 percent of the total assessment based on historical experience of fines and penalties mitigation and collection. Duties and taxes receivable are non-entity assets for which there is an offsetting liability due to the Treasury General Fund.

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6. Operating Materials and Supplies

Operating Materials and Supplies consist of parts and materials held for future consumption to repair and maintain CBP aircraft and vessels used in enforcement activities.

Operating Materials and Supplies as of September 30, 2005, consisted of the following (in thousands):

	<u>2005</u>
Aircraft	\$49,658
Vessels	4,091
Total	<u>\$53,749</u>

7. Seized and Forfeited Property

This schedule is presented for material prohibited (non-valued) seized and forfeited property only. These items are retained and ultimately destroyed by CBP and are not transferred to the Department of Treasury Forfeiture Fund or other Federal agencies. The ending balance for firearms includes only those seized items that can actually be used as firearms. Illegal drugs are presented in kilograms and a significant portion of the weight includes packaging, which often cannot be reasonably separated from the weight of the drugs since the packaging must be maintained for evidentiary purposes. Firearms, explosives, and pornography are presented in number of items; and counterfeit currency is presented in number of bills.

Analysis of Changes in Prohibited (Non-Valued) Seized Property

Category	Unit of Measurement	Balance October 1	New Seizures	*Remissions	*New Forfeitures	Adjustments	Balance September 30
Illegal Drugs							
Cannabis (marijuana)	Kilograms	2,176	444,751	0	(446,861)	436	502
Cocaine	Kilograms	144	31,818	0	(31,345)	(455)	162
Heroin	Kilograms	18	1,230	0	(1,225)	3	26
Firearms and Explosives							
Firearms	Number	7,788	1,454	(5,798)	(1,364)	(59)	2,021
Pornography	Number	133	213	(5)	(182)	(18)	141

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Analysis of Changes in Prohibited (Non-Valued) Forfeited Property

Category	Unit of Measurement	Balance October 1	New Forfeitures	*Transfers	*Destroyed	Adjustments	Balance September 30
Illegal Drugs							
Cannabis (marijuana)	Kilograms	98,657	446,861	(641)	(419,668)	(32,375)	92,834
Cocaine	Kilograms	17,348	31,345	(58)	(26,576)	(546)	21,513
Heroin	Kilograms	2,545	1,225	(1)	(1,664)	(1)	2,104
Firearms and Explosives							
Firearms	Number	297	1,364	(1,307)	(14)	(64)	276
Pornography	Number	37	182	0	(189)	9	39

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8. Property, Plant and Equipment, Net

Property, Plant and Equipment as of September 30, 2005, consists of the following (in thousands):

Categories	Useful Life (in years)	2005		
		Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Land	N/A	\$ 15,638	\$ —	\$ 15,638
Improvements to Land	6–40	28,419	(11,436)	16,983
Construction in Progress	N/A	450,316	—	450,316
Buildings, Other Structures and Facilities (a)	6–40	353,397	(68,974)	284,423
Equipment:				
ADP Equipment	5	203,191	(92,886)	110,305
Aircraft	12–20	514,048	(374,251)	139,797
Vessels	5–30	24,047	(12,319)	11,728
Vehicles	3–8	348,965	(243,626)	105,339
Other Equipment	5–15	385,180	(234,965)	150,215
Assets Under Capital Lease	2–10	9,429	(9,429)	—
Leasehold Improvements	2–30	183,492	(46,499)	136,993
Internal Use Software	5	242,189	(97,011)	145,178
Internal Use Software— in Development	N/A	350,807	—	350,807
Totals		<u>\$3,109,118</u>	<u>\$(1,191,396)</u>	<u>\$1,917,722</u>

(a) Includes four multi-use heritage assets located in Puerto Rico with an acquisition value of \$534 thousand.

9. Other Assets

Cash and Other Monetary Instruments as of September 30, 2005, consists of the following (in thousands):

<u>2005</u>	<u>Entity</u>	<u>Non-Entity</u>	<u>Totals</u>
Imprest Funds	\$304	\$ —	\$ 304
Undeposited Collections	328	5,640	5,968
Monetary Instruments	—	710	710
Totals	<u>\$632</u>	<u>\$6,350</u>	<u>\$6,982</u>

Undeposited collection balances represent timing differences between when cash relating to duties, taxes, fees, and other trade related collections are received and when the distribution of funds occurs. Cash can either be distributed to the General Fund, other Federal agencies, other governments, or returned to the importer/broker. The monetary instruments represents instruments importers/brokers provide to CBP in lieu of obtaining surety bonds.

Advances and Prepayments with the public consist of employee travel and salary advances and prepaid rent.

10. Liabilities

Liabilities Not Covered by Budgetary Resources as of September 30, 2005, consisted of the following (in thousands):

	<u>2005</u>
Intra-governmental:	
Accrued FECA Liability	\$ 160,280
Total Intra-governmental	<u>160,280</u>
Public:	
Accrued Payroll and Benefits:	
Accrued Leave	206,593
Actuarial FECA Liability	536,241
Other:	
Environmental Cleanup Costs	43,447
Contingent Liability	61,727
Software License Agreements	74,855
Total Public	<u>922,863</u>
Total Liabilities Not Covered by Budgetary Resources	1,083,143
Total Liabilities Covered by Budgetary Resources or Non-Entity Assets	<u>7,147,691</u>
Total Liabilities	<u>\$8,230,834</u>

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Liabilities not covered by budgetary or other resources represent amounts owed in excess of available appropriated or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future congressional appropriations.

Substantially all of the duty, tax and fee revenues collected by CBP are remitted to various General Fund accounts maintained by Treasury. Treasury further distributes these revenues to other Federal agencies in accordance with various laws and regulations.

11. Advances from Others

Advances from others included \$4.8 billion of unliquidated antidumping/countervailing duties as of September 30, 2005.

12. Accrued Payroll and Benefits

The payroll and benefits liability as of September 30, 2005, consisted of the following (in thousands):

	<u>2005</u>
Accrued Funded Payroll and Benefits	\$137,253
Accrued Unfunded Leave	206,593
Actuarial FECA Liability	<u>536,241</u>
Total	<u>\$880,087</u>

Claims incurred for the benefit of CBP employees under FECA are administered by DOL and are ultimately paid by CBP. Future workers' compensation estimates, generated from an application of actuarial procedures developed by the DOL for the future cost of approved compensation cases as of September 30, 2005, was \$536.2 million.

13. Refunds Payable

Refunds payable consists of amounts owed for refunds of duty and other trade related activity and drawback claims. These liabilities are principally funded from the Refunds and Drawback account. The September 30, 2005, accrued liability consists of the following (in thousands):

	<u>2005</u>
Refunds	\$ 91,659
Drawback claims	<u>26,810</u>
Total	<u>\$118,469</u>

CBP accrues a liability for refunds and drawback claims approved at year-end, but paid subsequent to year-end. Payments made to importers/exporters are primarily identified when the import entry is liquidated, a process in which CBP makes a final determination of duties, taxes, and fees owed on the entry. Due to non-liquidation of the entries, the amount to be refunded is undetermined. Therefore, a historical calculated

average was used to determine a ratio for estimating the receivable and payable to be recorded. Using this average, CBP has estimated \$9.2 million as of September 30, 2005, as a payable.

14. Leases

Operating Leases

CBP leases various facilities and equipment under leases accounted for as operating leases. The leased items consist of offices, warehouses, vehicles, and other equipment. Much of the office space occupied by CBP is either owned by the Federal Government or is leased by the General Services Administration (GSA) from commercial sources. CBP is not committed to continue to pay rent to GSA beyond the period occupied providing proper advance notice to GSA is made and unless the space occupied is designated as unique space only for CBP operations. However, it is expected that CBP will continue to occupy and lease office space from GSA in future years and that the lease charges will be adjusted annually to reflect operating costs incurred by GSA.

As of September 30, 2005, there are no future minimum lease commitments under non-cancelable operating leases for equipment.

Software License Agreements

CBP has a number of software license fee agreements primarily involving mainframe software licenses. The liabilities associated with these software license agreements are reflected on the accompanying balance sheet based upon the present value of the future minimum license agreement payments. As of September 30, 2005, the aggregate capitalized cost of the agreements still subject to lease is \$154.9 million. These agreements are included in the capitalized software.

Future minimum payments for cancelable commercial off-the-shelf license agreements and the present value of the minimum license agreement payments as of September 30, 2005, is as follows (in thousands):

FY	2005
2006	\$17,981
2007	17,981
2008	17,981
2009	17,981
2010	17,981
Beyond 2010	—
Total future minimum license	89,905
Less: Imputed interest	(15,050)
Total net present value of software license agreements	\$74,855

The net present value of the cancelable software license agreement is expected to be funded from future sources.

15. Injured Domestic Industries

The Continued Dumping and Subsidy Offset Act of 2000, P.L. 106-387, Title X, enacted in FY 2001 calls for CBP to disburse monies received in connection with antidumping and countervailing (AD/CV) duty orders and findings to qualifying injured domestic industries. During FY 2005, CBP liquidated \$236.8 million in AD/CV duty and recorded the liability.

16. Commitments and Contingencies

Environmental Liabilities

CBP is responsible to remediate its sites with environmental contamination. The major Federal laws covering environmental response, cleanup and monitoring are the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act and the Toxic Substances Control Act. The unrecognized amounts of environmental liabilities for assets that require the systematic recognition of the total estimated cleanup costs is applicable to PP&E placed in service after October 1, 1997. CBP's environmental cleanup liability as of September 30, 2005, was \$43.4 million. The liability consists of underground fuel storage tanks, occupied buildings containing friable asbestos material, and firing ranges. Cost estimates for environmental and disposal liabilities are subject to revision as a result of changes in technology and environmental laws and regulations.

At the request of CBP, the Federal Occupational Health Department conducted onsite assessments of CBP occupied facilities during FY 2002 and 2003 to determine and document where asbestos containing materials existed. While the data is still being consolidated and the report is being drafted, preliminary results indicate approximately 407 buildings contain friable asbestos, including ceiling tile, drywall and joint compound. The total impacted area containing the friable asbestos is approximately 2,045,743 square feet for an estimated liability cost of \$16.4 million. The estimated environmental liability cost was determined using a unit price of \$8 per square foot of impacted area based on GSA Contract #GS-07p-99-HHD-0014.

The Federal Occupational Health Department contracted with The Shipley Group to conduct Environmental Compliance Assessments of CBP owned facilities during FY 2005. As part of these assessments, underground storage tanks (UST) at all fuel-dispensing facilities were inspected and applicable records, including state registration records, were researched. While the report is still being drafted, data indicates CBP owns 25 UST's (one is in the process of being closed) at 11 locations, all meeting regulatory requirements and are equipped with leak detectors. The oldest tank was installed in 1988. The assessments also indicated regularly scheduled maintenance and calibrations have not been performed on the leak detection systems at some, but not all, locations. CBP is addressing this risk and will issue maintenance contracts in FY 2006 using the central Repair and Alteration Fund account.

In addition, there are six ongoing projects addressing tanks that leaked gasoline. The leaking tanks have been removed and remediation of the gasoline plumes is in process. The Corp of Engineers is overseeing the projects for CBP and estimates the project cost to be \$3.5 million. CBP provided \$2.3 million to date; there is a need for additional funding of \$1.2 million.

The CBP owned and controlled ranges are outdoor ranges of earth berm construction. Lead is typically not harvested from these types of ranges while the range is active due to the lengthy disruption to operation period. Still because CBP will be responsible for remediation of the lead, should they close, CBP estimates an environmental liability cost using a Small Arms Firing Range Average Cost of \$220 thousand per range obtained by USCG. Therefore, the total estimated environmental liability for these CBP ranges is \$1.5 million.

CBP also has agreements for the use at 105 public, privately owned, and local law enforcement ranges. Five of these ranges are equipped with trapping mechanisms and the range owners periodically harvest the lead as part of their operational expenses. The remaining 100 range sites are earth berm construction. For these sites, CBP liabilities are shared with other users of the facilities. However, due to CBP proportionate usage of the range being different at each range, CBP used the full ownership cost of \$220 thousand to estimate CBP liability. Therefore, the estimated CBP environmental liability at these 100 ranges is \$22 million.

The contractors perform all O&M activities on vessels and aircrafts owned by the Air Marine Operations. The contract statements of work (SOW) for vessel and aircraft maintenance contain clauses on safety and hazardous waste management. The contractors are required to comply with the environmental requirements. The contractors are responsible for managing all hazardous waste generated in accordance with all local, state, DoD and federal requirements for the hazardous waste products. An Aviation Maintenance Officer (AMO) is assigned to each of our aviation branches, and the primary duty of that AMO is to oversee/monitor the contractor for compliance with SOW requirements. For the past year, AMO has seen no discrepancies that dealt with EPA compliance issues. CBP has no environmental liability at aircraft and vessel O&M facilities.

Cost estimates for environmental and disposal liabilities in this section are subject to material change as a result of changes in environmental laws and regulations, technology and plans. The nature of estimates and the disclosures herein are subject to possible changes due to inflation, deflation, technology, or applicable laws and regulations and are disclosed as necessary based on the applicable asset.

Legal Contingent Liabilities

The estimated contingent liabilities recorded in the accompanying balance sheet for all probable and estimable litigation related claims as of September 30, 2005 was \$61.7 million. Asserted and pending legal claims for which loss is reasonably possible was estimated at \$317.3 million as of September 30, 2005.

CBP is party to various administrative proceedings, legal actions, and claims brought by or against it. Any financially unfavorable administrative or court decision will normally be funded from either: (1) CBP appropriation for refunds and drawback for trade litigation issues; (2) various claims and judgment funds maintained by Treasury; or (3) CBP salary and expense appropriation. It is the opinion of CBP management and legal counsel, that the ultimate resolution of these proceedings, legal actions, and claims will not materially affect the financial statements.

Consolidated Balance Sheet

Duty and Trade Refunds

There are various other trade issues resolved by other Federal Agencies, such as the Department of Commerce, which may result in refunds of duties, taxes, and fees from the Refunds and Drawback Account. Until such time as a decision is reached by the other Federal agencies, CBP does not have sufficient information to estimate a contingent liability amount. All known refunds as of September 30, 2005, have been recorded.

Loaned Aircraft

CBP is generally liable to the Department of Defense for damage or loss to aircraft on loan. As of September 30, 2005, CBP had 16 aircraft loaned from Department of Defense with an acquisition value of \$94.4 million.

Other Contractual Arrangements

The Department is committed under contractual agreements for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all CBP activities amounts to \$2.5 billion in FY 2005.

17. Balance Sheet Analysis

Balance Sheet Analysis Note 17 (matching A-136)

		<u>2005</u>
ASSETS		
Fund Balance with Treasury		\$ 8,545,942
Accounts Receivable	44,437	
Other Assets	206,362	250,799
Total Intra-governmental		8,796,741
Accounts Receivable, Net		147,298
Tax, Duties and Trade Receivables, Net		1,400,073
Operating Materials and Supplies		53,749
Property, Plant and Equipment, Net		1,917,722
Cash and Other Monetary Instruments	6,982	
Other	2,642	9,624
		3,528,466
TOTAL ASSETS		<u><u>\$12,325,207</u></u>

Consolidated Balance Sheet

	<u>2005</u>
LIABILITIES	
Accounts Payable	86,235
Other	1,616,197
Total Intra-governmental	1,702,432
Accounts Payable	300,096
Federal Employee Benefits	880,087
Environmental Liabilities	43,447
Other	5,304,772
	<u>6,228,306</u>
	6,528,402
TOTAL LIABILITIES	8,230,834
NET POSITION	
Unexpended Appropriations	2,070,402
Cumulative Results of Operations	2,023,971
	<u>4,094,373</u>
TOTAL NET POSITION	4,094,373
TOTAL LIABILITIES AND NET POSITION	<u><u>\$12,325,207</u></u>

Consolidated Balance Sheet

Customs and Border Protection Required Supplementary Information (Unaudited)

Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be performed, and is delayed until a future period. Maintenance includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it will continue to provide acceptable service and achieve its useful life.

An assessment of Fair means the facility/equipment condition meets minimum standards but requires additional maintenance or repair to prevent further deterioration, increase operating efficiency and to achieve normal life expectancy. Deferred maintenance on property, plant and equipment as measured by a condition assessment survey, is comprised of (in thousands):

	2005	
	<u>Condition Assessment</u>	<u>Deferred Maintenance</u>
Building and Structures	Fair	\$1,660
Vehicles	Fair	4
Totals		<u>\$1,664</u>

Customs and Border Protection
Required Supplementary Stewardship Information
(Unaudited)

Heritage Assets

As of September 30, 2005, CBP maintains four multi-use heritage assets located in Puerto Rico valued at \$534 thousand. Heritage assets are property, plant and equipment that have historical or national significance, cultural, educational, or artistic importance, or significant architectural characteristics. Heritage assets are generally expected to be preserved indefinitely. All multi-use heritage assets are reflected on the consolidated balance sheet. Financial information for heritage assets and general PP&E is presented in the required supplementary information.

Notes to Financial Statements

Customs and Border Protection Other Accompanying Information (Unaudited)

Petitioned and Protested Schedule

An analysis of the changes in petitioned and protested assessed amounts during FY 2005 is as follows (in thousands):

	2005					
	Balance October 1	Additional Assessments	Protest in Favor of Debtor	Net Reduction Administrative Process	Additional Receivable	Balance September 30
Duties	\$ 85,534	\$ 190,344	\$ (20,257)	\$(177,834)	\$ (17,597)	\$ 60,190
Taxes	7,091	836	(82)	(1,190)	(6,007)	648
Fees	312	1,193	(165)	(706)	(288)	346
Fines/Penalties	1,215,886	1,154,127	(336,709)	(178)	(571,988)	1,461,138
Interest	73,169	84,082	(3,120)	(32,384)	(26,529)	95,218
Antidumping/ Countervailing Duty	176,548	238,393	(6,588)	(42,180)	(137,873)	228,300
Refunds & Drawback	12,012	9,989	(3,558)	(5,486)	(3,369)	9,588
Totals	<u>\$1,570,552</u>	<u>\$1,678,964</u>	<u>\$(370,479)</u>	<u>\$(259,958)</u>	<u>\$(763,651)</u>	<u>\$1,855,428</u>

CBP reviews selected entry documentation to determine whether importer payment estimates of duties, taxes, and fees were accurate or whether additional supplemental amounts are owed and should be billed. CBP regulations allow the importer 90 days (or 180 days for entries on or after 12/18/04) from the bill date in which to file a protest to be reviewed by the Port Director and an application requesting further review of the protest by CBP Office of Regulations and Rulings challenging the assessment of supplemental duties, taxes, and fees. If the Port Director denies the protest and application for further review, the protestor has an additional 60 days from the denial date for a review of the application by the Commissioner of CBP. Consequently, CBP recognizes accounts receivables only when the protested period has elapsed or when a protest decision has been rendered in CBP favor.

Additionally, importers and their sureties also have the option to petition for relief after receipt of CBP notice that a fine or penalty has been assessed when a violation of law or regulation is discovered. The importer or surety has 60 days to file a petition for relief or make payment of the assessed amount. If a petition is received and CBP finds there are extenuating circumstances, such as an incorrect assessment, which warrants mitigation, relief is granted as prescribed by CBP mitigation guidelines and directives. Consequently, CBP recognizes accounts receivables only when the petition period has elapsed or when a petition decision has been rendered.

Consolidated Balance Sheet

Customs and Border Protection Other Accompanying Information (continued) (Unaudited)

Entity Receivables

An aging of entity receivables as of September 30, 2005, is as follows (in thousands):

2005	Aged Period					Total
	<=90 days	91 days–1 year	1-2 years	2-3 years	3+ years	
Reimbursable services	\$ 14,559	\$ 201	\$ 3,252	\$ 85	\$ 67	\$ 18,164
User fees	119,867	5,704	10,377	2,038	7,939	145,925
Gross receivables	134,426	5,905	13,629	2,123	8,006	164,089
Less uncollectible amounts	—	(809)	(6,836)	(1,490)	(7,656)	(16,791)
Net receivables	<u>\$134,426</u>	<u>\$5,096</u>	<u>\$ 6,793</u>	<u>\$ 633</u>	<u>\$ 350</u>	<u>\$147,298</u>

Non-Entity Receivables

An analysis of the changes in accounts receivable during FY 2005 is as follows (in thousands):

2005						
Receivable Category	Balance October 1	Receivables Recorded During the Fiscal Year	Collections	Write-offs	Adjustments	Balance September 30
Duties	\$1,036,974	\$23,065,552	\$(22,709,339)	\$ (6,621)	\$ (243,736)	\$1,142,830
Excise Taxes	73,235	2,367,106	(2,339,249)	—	(13,167)	87,925
Fees	79,904	2,163,117	(2,147,055)	(3)	(11,430)	84,533
Fines/penalties	798,171	4,476,452	(54,539)	(120,546)	(4,065,850)	1,033,688
Interest	115,581	75,401	(31,155)	(2,427)	(36,417)	120,983
Antidumping/ Countervailing Duty	269,427	2,045,880	(1,906,123)	(4,803)	(163,887)	240,494
Refunds/drawback	526	8,864	(5,455)	—	(2,326)	1,609
Totals	\$2,373,818	<u>\$34,202,372</u>	<u>\$(29,192,915)</u>	<u>\$(134,400)</u>	<u>\$(4,536,813)</u>	\$2,712,062
Less uncollectible amounts	(1,088,121)					(1,311,989)
Net receivables	<u>\$1,285,697</u>					<u>\$1,400,073</u>

Consolidated Balance Sheet

Customs and Border Protection Other Accompanying Information (continued) (Unaudited)

An aging of non-entity Intra-governmental receivables as of September 30, 2005, is as follows (in thousands):

2005 (Audited)	Aged Period					Total
	<=90 days	91 days–1 year	1-2 years	2-3 years	3+ years	
Duties	\$1,025,720	\$ 11,245	\$ 5,945	\$ 46,857	\$ 53,063	\$ 1,142,830
Excise taxes	80,729	2,621	3,747	89	739	87,925
User fees	83,109	150	450	461	363	84,533
Fines/penalties	93,498	373,029	279,413	137,123	150,625	1,033,688
Interest	487	20,541	15,151	22,640	62,164	120,983
Antidumping/ Countervailing Duty	65,404	100,308	39,365	23,072	12,345	240,494
Refunds/drawback	4	1,545	11	8	41	1,609
Gross receivables	1,348,951	509,439	344,082	230,250	279,340	2,712,062
Less uncollectible amounts	(97,553)	(453,508)	(307,626)	(198,713)	(254,589)	(1,311,989)
Net receivables	<u>\$1,251,398</u>	<u>\$ 55,931</u>	<u>\$ 36,456</u>	<u>\$ 31,537</u>	<u>\$ 24,751</u>	<u>\$ 1,400,073</u>

Auditor Reports

Office of Inspector General (OIG) Report on Major Management Challenges

The DHS OIG's summary of major management challenges facing the Department of Homeland Security, dated October 25, 2005, and the agency's progress addressing these challenges are addressed at the DHS consolidated level and are incorporated in the DHS FY 2005 PAR.

Independent Auditor's Report

The independent audit of CBP's balance sheet and internal controls was conducted by KPMG LLP, and follows in its entirety.

Independent Auditor's Report



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Inspector General
U.S. Department of Homeland Security

Commissioner
Customs and Border Protection:

We have audited the accompanying consolidated balance sheet of the U.S. Department of Homeland Security's (DHS) Bureau of Customs and Border Protection (CBP) as of September 30, 2005. The objective of our audit was to express an opinion on the fair presentation of the consolidated balance sheet. In connection with our audit, we also considered CBP's internal control over financial reporting and tested CBP's compliance with certain provisions of applicable laws, regulations, and contract agreements that could have a direct and material effect on the consolidated balance sheet.

SUMMARY

As stated in our opinion on the consolidated balance sheet, we concluded that CBP's consolidated balance sheet as of September 30, 2005, is presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as reportable conditions:

1. Drawback of Duties, Taxes, and Fees
2. Information Technology
3. Environmental Cleanup Costs
4. Entry Process:
 - Compliance Measurement Program
 - Bonded Warehouse and Foreign Trade Zones

We consider the first three reportable conditions, above, to be material weaknesses.

KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.



The results of our tests of compliance with certain provisions of laws, regulations, and contract agreements disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*:

- *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*
- *Federal Information Security Management Act (Electronic Government Act of 2002)*
- *Federal Financial Management Improvement Act of 1996 (FFMIA)*

The following sections discuss our opinion on CBP's consolidated balance sheet, as of September 30, 2005, our consideration of CBP's internal control over financial reporting, our tests of CBP's compliance with certain provisions of applicable laws, regulations, and contract agreements, and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheet of the Department of Homeland Security's (DHS) Bureau of Customs and Border Protection (CBP) as of September 30, 2005. In our opinion, the consolidated balance sheet referred to above presents fairly, in all material respects, the financial position of CBP as of September 30, 2005 in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis, Performance Sections, Required Supplementary Information, Required Supplementary Stewardship Information, and Other Accompanying Information is not a required part of the consolidated balance sheet, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements, Part A, Form and Content of the Performance and Accountability Report*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect CBP's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated balance sheet.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated balance sheet being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted certain matters, described in Exhibits I and II, involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the reportable conditions presented in Exhibit I are material weaknesses. Exhibit II presents the other reportable condition.



A summary of the status of prior year reportable conditions as reported in the DHS consolidated report in FY 2004 is included in Exhibit IV.

We also noted other matters involving internal control over financial reporting and its operations that we will report in the DHS Consolidated management letter.

* * * * *

COMPLIANCE AND OTHER MATTERS

Our tests of compliance with certain provisions of laws, regulations, and contract agreements, as described in the Responsibilities section of this report, exclusive of those referred to in the FFMIA, disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, and are described in Exhibit III.

The results of our tests of FFMIA disclosed instances in which CBP's financial systems did not substantially comply with Federal financial management system requirements, were not compliant with the United States Standard General Ledger at the transaction level, and were not compliant with Federal accounting standards. Details of this compliance issue are included in Exhibit III.

Management's Response to Internal Control and Compliance Findings

CBP management responses to our internal control and compliance findings are included after each comment in Exhibits I, II and III of our report.

RESPONSIBILITIES

Management's Responsibilities

The *Government Management Reform Act of 1994 (GMRA)*, *Accountability of Tax Dollars Act of 2002*, and *Government Corporation Control Act* require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, CBP prepares and submits financial statements in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the consolidated balance sheet, including:

- Preparing the consolidated balance sheet in conformity with accounting principles generally accepted in the United States of America;
- Preparing the Management Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information;
- Establishing and maintaining internal controls over financial reporting; and
- Complying with laws, regulations, and contract agreements, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.



Auditors' Responsibilities

Our responsibility is to express an opinion on CBP's consolidated balance sheet as of September 30, 2005 based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform our audit to obtain reasonable assurance about whether the consolidated balance sheet as of September 30, 2005, is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CBP's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated balance sheet;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated balance sheet presentation.

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered CBP's internal control over financial reporting by obtaining an understanding of CBP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated balance sheet. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. 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 audit was not to provide assurance on CBP's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, in our audit, we considered CBP's internal control over the Required Supplementary Stewardship Information by obtaining an understanding of CBP's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over the Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, in our audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis and Performance sections, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether CBP's consolidated balance sheet as of September 30, 2005 is free of material misstatements, we performed tests of CBP's compliance with certain provisions of laws, regulations, and contract agreements, noncompliance with which could have a direct and material effect on the determination of consolidated balance sheet amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions

Independent Auditor's Report



referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to CBP. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether CBP's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

DISTRIBUTION

This report is intended solely for the information and use of CBP management, DHS management, the DHS Office of Inspector General, OMB, the Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 2, 2005

Exhibit I

Material Weaknesses

A. Drawback of Duties, Taxes and Fees

Background:

CBP, as a component of DHS, has continued to perform an important revenue collection function for the U.S. Treasury. CBP collects approximately \$28 billion in import duties, taxes and fees annually on merchandise arriving in the United States from foreign countries.

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

Condition:

We noted the following weaknesses related to internal controls over drawback of duties, taxes, and fees paid by the importer:

- The Automated Commercial System (ACS) lacked automated controls to detect and prevent excessive drawback claims and payments, necessitating inefficient manual processes to compensate. ACS did not have the capability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries or export documentation upon which the drawback claim was based. For example, ACS did not contain electronic edit checks that would flag duplicate claims for export of the same merchandise;
- Drawback review policies did not require drawback specialists to review all related drawback claims against the underlying consumption entries to determine whether, in the aggregate, an excessive amount was claimed;
- CBP drawback review policy and procedures allowed drawback specialists, with supervisory approval, to judgmentally decrease the number of ACS consumption entries randomly selected for review, thus decreasing the review's effectiveness; and
- The initial period for document retention related to a drawback claim is only 3 years from the date of payment. However, there are several situations that could extend the life of the drawback claim well beyond those 3 years. Also, the policy language was ambiguous; "...three years from the date of payment..." left open to interpretation whether the three years began on the date of the accelerated payment (if any), or the payment at final liquidation (if any).

Cause/Effect:

Much of the drawback process was manual, placing an added burden on limited resources. CBP did use a sampling approach to compare, verify, and match consumption entry and export documentation to drawback claims submitted by importers. However, system and procedural limitations decreased the effectiveness of this approach. The inherent risk of fraudulent claims or claims made in error was high, which increased the risk of erroneous payments.

Criteria:

Under FMFIA, management must implement cost-effective controls to safeguard assets and ensure reliable financial reporting. OMB's *Revised Implementation Guidance for the Federal Financial Management Improvement Act* states that financial systems should "routinely provide reliable financial information consistently, accurately, and reported uniformly" to support management of current operations. Joint Financial Management Improvement Program (JFMIP) publications and OMB Circular A-127, *Financial Management Systems*, outlines the requirements for Federal systems. JFMIP's *Core Financial System Requirements* states that the core financial system must maintain detailed information by account sufficient to provide audit trails and to support billing and research activities. OMB Circular A-127 requires that the design of financial systems should eliminate unnecessary duplication of a transaction entry. Wherever appropriate, data needed by the systems to support financial functions should be entered only once and other parts of the system should be updated through electronic means consistent with the timing requirements of normal business/transaction cycles.

The *Improper Payments Information Act of 2002* requires agencies to assess the risk of erroneous payments and develop a plan to correct control weaknesses. In addition to the regulatory requirements stated above, CBP's *Drawback Handbook*, dated July 2004, states that management reviews are necessary to maintain a uniform national policy of supervisory review.

Recommendations:

We recommend that CBP:

1. Implement effective internal controls over drawback claims as part of any new systems initiatives, including 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;
2. Revise current policies and procedures to require drawback specialists to review a statistically valid sample of all prior related drawback claims against a sample of consumption entries to determine whether, in the aggregate, an excessive amount was claimed against the consumption entries;
3. Adopt a review methodology to allow a statistical projection for drawback testing; and
4. Lengthen the required document retention period for all supporting documentation so that it corresponds with the drawback claim life cycle.

Exhibit I

Management Response:

CBP agrees that effective internal controls over drawback processing are necessary. To ensure that these controls are effective, CBP management has committed to the following:

1. Ensure that the Automated Commercial Environment (ACE) is built to allow for proper comparisons, verifications and tracking of drawback claim data. CBP understands the necessity for ACE to perform checks to ensure that duplicate claims for the same goods are not processed and the need for a link to export data.
2. Develop and begin implementation of a more statistically valid sampling methodology that will also allow for valid statistical projection of testing results. Implementation of the new sampling methodology began in July 2005.

In order to ensure that the new methodology is effective, CBP will monitor the implementation and progress of the new method for a one-year period. In July 2006, CBP will make a determination as to whether or not the new sampling methodology should be adopted. If the new methodology is approved, the Drawback Handbook will be updated to reflect the new sampling methodology.

3. CBP Management agrees that the document retention period for a filer to maintain supporting documentation on a drawback claim is too short when compared to the lifecycle of a drawback claim. However, this recommendation requires a statutory change to 19 U.S.C. 1508(c). CBP can recommend such a change to the drawback recordkeeping requirements; however, a statutory change requires Congressional action. CBP is currently working with the trade community to update the drawback statutory language and will seek the trade community's support to change the recordkeeping requirement. If the trade community is not supportive of the change to the recordkeeping requirements, it is unlikely that Congress will enact it.

B. Information Technology

Background:

Controls over information technology (IT) and related financial systems are essential elements of financial reporting integrity. Effective general controls in an IT and financial systems environment are typically defined in six key control areas: entity-wide security program planning and management, access control, application software development and change control, system software, segregation of duties, and service continuity. In addition to reliable controls, financial management system functionality is important to program monitoring, increasing accountability of financial and program managers, providing better information for decision-making, and increasing the efficiency and effectiveness of services provided by the Federal government.

Condition:

During FY 2005, CBP took corrective actions to address prior year IT control weaknesses. However, during FY 2005, we continued to find IT general and application control weaknesses at CBP. The most significant weaknesses from a financial statement audit perspective relate to information security. Collectively, the IT control weaknesses limit CBP's ability to ensure that critical financial and operational data is maintained in such a manner to ensure confidentiality, integrity, and availability. Because of the sensitive nature of the issues identified, we will issue a separate restricted distribution report to address those issues in detail.

Criteria:

The *Federal Information Security Management Act (FISMA)*, passed as part of the *Electronic Government Act of 2002*, mandates that Federal entities maintain IT security programs in accordance with OMB and National Institute of Standards and Technology (NIST) guidance. OMB Circular A-130, *Management of Federal Information Resources*, and various NIST guidelines describe specific essential criteria for maintaining effective general IT controls. In addition, OMB Circular A-127 prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems.

Recommendation:

Due to the sensitive nature of these findings, our separate report will recommend that CBP management implement and enforce certain procedures to address the general and application control vulnerability of its financial systems.

Management Response:

Due to the sensitive nature of the issues identified, responses will be included in a separate, restricted distribution report.

C. Environmental Cleanup Costs**Background/Condition:**

CBP's environmental liabilities are created primarily from underground fuel storage tanks and firing ranges.

CBP had not determined the environmental liabilities to be recorded in the September 30, 2005 consolidated balance sheet until a review was performed in response to our audit inquiry. CBP's analysis resulted in an environmental liability of approximately \$43 million. We further noted that no single program existed to manage CBP's environmental liabilities calculation, resulting in the necessity for an ad hoc method to be implemented at year-end. In addition, we noted a lack of communication throughout the organization related to the requirements associated with environmental liabilities.

Cause/Effect:

CBP did not have policies and procedures in place that required an annual review to identify a comprehensive list of sites that require environmental remediation and cleanup. Without a clear understanding of the financial reporting requirements of environmental liabilities and an effective process in place to comply, the liability may be misstated.

Exhibit I

Criteria:

FMFIA requires that "internal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General." The Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* states that management is responsible for developing and documenting detailed policies, procedures, and practices that fit their agency's operations.

Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment*, paragraph 85-86 defines environmental costs as those costs of removing, containing, and/or disposing of (1) hazardous waste from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E. Federal Accounting Standards Advisory Board Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, requires recognition of liabilities that are probable and measurable.

Recommendations:

We recommend that CBP:

1. Designate one central person or department to be responsible for management and reporting of environmental liabilities, e.g., identification, valuation, tracking, and financial statement reporting;
2. Improve the communication throughout CBP to ensure that a clear understanding of the financial reporting requirements exists;
3. Implement a process to ensure that all sites with potential environmental liabilities are identified and liabilities are properly estimated and recorded in the consolidated balance sheet, in accordance with generally accepted accounting principles;
4. Ensure that the liability is updated on a quarterly basis; and
5. Improve the traceability of the Environmental Liabilities Summary Sheet estimate to its supporting documentation.

Management Response:

Customs and Border Protection continues to refine its process to develop and compile known and probable environmental liabilities for inclusion on its financial statements. To enhance the program one office will be designated to manage the identification, validation, tracking and reporting of environmental liabilities. The office will develop appropriate procedures and instructions that implement a process to ensure that environmental liabilities are identified periodically for presentation in the annual financial statements and traceable to supporting documentation.

Other Reportable Conditions

D. Entry Process

1. Compliance Measurement Program

Background:

CBP utilizes the Compliance Measurement (CM) program to measure the effectiveness of its control mechanisms over the collection of taxes, duties, and fees. The CM program is also used to determine the revenue gap that is reported in the "Other Accompanying Information" in the financial statements.

Condition:

We noted the following weaknesses related to CBP's CM Program:

- Implementation of CM examinations varied significantly, with port guidance being subject to interpretation. As such each port followed different procedures for performing a CM examination. In addition, officers have been given greater flexibility in conducting the physical examination;
- CBP established the positions of CM, SSXM, and ISDA coordinators. No specific training for these coordinator roles existed to assist these personnel in making appropriate interpretations concerning their roles and responsibilities;
- The National Analysis Specialist Division (NASD) port audits were not selected based on a risk assessment. The ports were selected based on other non-risk based criteria. We also noted that while the NASD prepared port audit results, they did not prepare an analysis and summary of the findings and an "impact" assessment on Trade Compliance. CBP did not have a policy requiring follow-up to check that the errors were corrected at the ports (if possible) or that training was given to ensure that the errors did not happen again. Additionally, the results of the port audits were not considered by CBP's statistician in the calculation of the "revenue gap";
- During the current fiscal year CBP lowered the CM sample size by 50 percent to redirect resources to border security. However, such a reduction in sample size could cause the "revenue gap" calculation to exceed an acceptable range of probable values; and
- CBP performs little review or analysis on the CM data to ensure that it was inputted correctly.

Cause/Effect:

CBP has been challenged to balance its commitment of limited resources to two important mission objectives – trade compliance, including the collection of taxes, duties and fees owed to the Federal government, and securing the U.S. borders from potential terrorist entry. While these mission objectives do overlap somewhat, there are differences in how resources are deployed. During fiscal year 2005, CBP reduced its sample size for its CM program by a factor of 50 percent, to devote more resources to border security. Further, CM program policies and procedures have not gone through a significant review and update in several years. Turnover and reassignment of personnel have caused the CM program knowledge base to go stale in some ports.

Exhibit II

The weaknesses in the CM program could result in CBP incorrectly evaluating the effectiveness of its control environment over the collections of duties, taxes, and fees. In addition, errors within the CM program could result in a misstatement of the "revenue gap" disclosure in the Management Discussion and Analysis section of CBP's Performance and Accountability Report.

Recommendations:

We recommend that CBP implement the following to improve the CM program:

- Establish minimum standards for CM examinations to ensure consistency in the performance of each random review;
- Conduct periodic training to ensure CM, SSXM, and ISDA coordinators understand their roles and responsibilities in the CM program;
- Formalize and implement effective procedures for the port audit process;
- Develop and implement additional procedures that will improve the precision of the revenue gap calculation; and
- Establish an effective means of communication between the Office of Field Operations and Office of Strategic Trade to ensure data quality issues are timely addressed.

Management Response:

1. When CM resumed in 2002, CBP Officers were given greater flexibility in conducting the physical exams. The purpose of the flexibility was to provide the frontline with the ability to address security issues should the need arise. CBP recognizes that this flexibility can result in inconsistencies in the performance of the exams. In recognition of this, CBP has developed guidelines for exam procedures. Training of CM coordinators, muster sheets for supervisors, and dissemination of the exam guidelines were all done prior to the implementation of the FY 06 CM plan.
2. All Directors of Field Operations have identified CM coordinators for their field offices. A two day training session was held September 20 and 21, 2005 to outline the new CM procedures and to highlight the roles and responsibilities of the CM coordinators. In addition, standard operating procedures have been developed and disseminated and CM coordinators will participate in monthly conference calls to address any CM related issues and to verify that CM coordinator information is current and accurate.
3. In FY 06, CBP will establish a risk-based approach to select ports for CM port audits. At the conclusion of the review, CBP will prepare an analysis and summary of the findings that quantify the affect on the revenue gap calculation. Recommendations for corrective actions will be tracked by the headquarters office to ensure deficiencies have been properly addressed.
4. In FY 05, the CM sample size was reduced from 60,000 to 30,000 exams to free up frontline resources during a time of heightened security. Although this action was necessary to fulfil an important security mission, CBP realizes that the lower sample size did make the revenue gap calculation less precise. In recognition of the need to generate a more accurate revenue gap calculation, the FY 06 CM plan will include a sample size of 70,000 entry lines. This will decrease the margin of error of the calculation. The reviews will be conducted by the Import Specialists since our analysis showed that the majority of the revenue-related discrepancies found in CM were discovered by an Import Specialist review.

5. CBP uses OST high level review, port audits, and local CM coordinator review to identify errors in CM data. To preserve the integrity of the CM data, errors can only be corrected by CM coordinators or authorized local port officials. For FY 06, CBP will establish a formal means to communicate and track all data errors associated with CM.

2. Bonded Warehouse and Foreign Trade Zones

Background:

Bonded Warehouses (BW) are facilities under the joint supervision of CBP and the BW proprietor used to store merchandise that has not made entry into the U.S. Commerce.

Foreign Trade Zones (FTZ) are secured areas under the joint supervision of CBP and the FTZ operator that are considered outside of the CBP territory upon activation. Authority for establishing these facilities is granted by the U.S. Department of Commerce's Foreign Trade Zones Board under the Foreign Trade Zones Act of 1934, as amended (19 U.S.C. 81a-81u). Foreign and domestic merchandise may be admitted into zones for operations not otherwise prohibited by law, including storage, exhibition, assembly, manufacturing, and processing.

Condition:

We noted the following internal control weaknesses related to the BW and FTZ processes:

1. CBP lacked official guidance and proper training to address the monitoring of BWs and FTZs. For example, we identified incomplete risk assessments and spot checks of BWs and FTZs;
2. CBP had not implemented a CM program to measure the "revenue gap" and the related effectiveness of controls over trade compliance for BWs and FTZs; and
3. CBP did not perform an analysis of the BW and FTZ surveys.

Criteria:

GAO's *Standards* state that: "Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives. They help ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results."

Cause/Effect:

Policies and procedures have not been developed or implemented to reliably and accurately review and track the BWs and FTZs. Without an effective process to review the compliance of BW and FTZ, CBP cannot determine the loss of revenue associated with these facilities, and it is possible that some of the facilities were not accounted for and that others were counted twice.

Exhibit II

Recommendations:

We recommend that CBP:

- Finalize and issue CBP policies and provide appropriate training regarding compliance reviews of BWs and FTZs. This policy should include a standard national checklist to help CBP officers perform thorough reviews and measure compliance rates and to document the reviews consistently. In addition, this policy should include specific corrective action plans, based on the inspection results;
- Implement a CM program that can assist in determining a loss of revenue calculation for BWs and FTZs; and
- Implement a quality assurance program over the compliance review program.

Management Response:

1. CBP will finalize and issue policies and provide appropriate training regarding compliance reviews. This policy will be implemented when the handbooks for CBW and FTZ compliance measurement are approved and distributed.
2. CBP agrees with the recommendation to implement a compliance measurement program that can assist in determining a loss of revenue calculation. This has been included in the CBP CM plan for FY 2006.
3. A qualitative review of the results of the CM for FY2006, which includes type 21 entries, will be conducted. Uniform spot checks will be implemented when the handbooks are issued as official policy and distributed to the field.

Compliance with Laws and Regulations

(Findings A – C and D are presented in Exhibits I and II, respectively)

This section discusses issues related to noncompliance with laws and regulations that could have a material impact on CBP's financial statements.

E. Federal Managers' Financial Integrity Act of 1982

OMB Circular A-123 requires agencies and Federal managers to (1) develop and implement management controls; (2) assess the adequacy of management controls; (3) identify needed improvements; (4) take corresponding corrective action; and (5) report annually on management controls (commonly known as management's FMFIA report). We noted that CBP management's FMFIA report did not contain all material weaknesses identified in its Performance Accountability Report. Specifically, CBP's FMFIA report did not identify environmental liabilities as a material weakness.

Recommendation:

We recommend that CBP improve its process to ensure compliance with FMFIA in FY 2006.

Management Response:

CBP Management concurs with the recommendation and is confident that the DHS wide implementation of requirements of the DHS Financial Accountability Act will greatly enhance the FMFIA process and result in compliance with FMFIA in FY 2006.

F. Federal Information Security Management Act (Electronic Government Act of 2002)

CBP is required to comply with the FISMA, which was enacted as part of the *Electronic Government Act of 2002*. FISMA requires agencies and departments to: (1) provide information security for the systems that support the operations under their control; (2) develop, document and implement an organization-wide information security program; (3) develop and maintain information security policies, procedures and control techniques; (4) provide security training and oversee personnel with significant responsibilities for information security; (5) assist senior officials concerning their security responsibilities; and (6) ensure the organization has sufficient trained personnel to comply with FISMA requirements. We noted instances of non-compliance with FISMA that have been reported by us in Appendix I within Comment B – *Information Technology*.

Recommendations:

Recommendations will be included in a separate, restricted distribution report.

Management Response:

Due to the sensitive nature of the issues identified, CBP management response to recommendations will be included in a separate limited use IT report.

Exhibit III

G. Federal Financial Management Improvement Act of 1996 (FFMIA)

CBP is required to comply with FFMIA, which requires that an agency's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. We noted instances of non-compliance with FFMIA in relation to Federal financial management systems requirements, the United States Government Standard General Ledger at the transaction level, and Federal accounting standards. Specifically, we noted the following weaknesses:

1. With respect to Federal financial management system requirements, CBP's inventory systems do not interface with its financial system, and significant accounts receivable were not processed through an automated interface;
2. With respect to the United States Government Standard General Ledger at the transaction level; manual calculations were required to arrive at period end Tax, Duties, and Trade accounts receivable and reimbursable revenue and the related accounts receivable and inventory were not recorded at the transaction level timely, as the transaction occurred, in the financial system; and
3. With respect to Federal accounting standards: The material weakness related to environmental liabilities in Exhibit I resulted in a non-compliance with Federal accounting standards. See Comment C – *Environmental Liabilities* in Exhibit I for more information.

Recommendation:

We recommend that CBP implement actions to comply with Federal financial management requirements of FFMIA.

Management Response:

CBP management concurs with this recommendation.

Independent Auditor's Report

Exhibit IV

Status of Prior Year Reportable Conditions and Non-Compliance with Significant Laws and Regulations (As Reported in the FY 2004 DHS Consolidated Auditors' Report)

Prior Year Condition	As Reported at September 30, 2004 (DHS Consolidated Report)	Status as of September 30, 2005 (CBP Stand-Alone Report)
Financial System Functionality and Technology	Material Weakness: Weaknesses were noted in entity-wide security, system access, segregation of duties, service continuity, and system software change management.	Continue as a material weakness: Although improvements were made, weaknesses still remained in all areas noted during fiscal year 2004.
Custodial Activities Performed by Customs and Border Protection	<p>Reportable condition: CBP did not have a reliable process of monitoring the movement of in-bond shipments and lacked consistent performance of compliance measurement program to periodically assess risk and compute an estimate of underpayment of duties, taxes, and fees.</p> <p>In addition, ACS lacked controls to detect and prevent excessive drawback claims and payments, requiring inefficient manual processes to compensate and the drawback review policies did not require drawback specialists to review all related drawback claims.</p>	<p>No longer considered a reportable condition: Improvements were made to the "in-bond" process and this process is not included in the current year reportable condition.</p> <p>Elevated to a material weakness: Weaknesses continue to exist related to the drawback process.</p>
Non-compliance with the Federal Information Security Management Act	Instance of non-compliance: CBP was not in substantial compliance with FISMA. FISMA requires agencies and departments to: 1) provide information security for the systems that support the operations under their control; 2) develop, document and implement an organization-wide information security program; 3) develop and maintain information security policies, procedures and control techniques; 4) provide security training and oversee personnel with significant responsibilities for information security; 5) assist senior officials concerning their security responsibilities; and 6) ensure the organization has sufficient trained personnel to comply with FISMA requirements.	Continue reporting as an instance of non-compliance: Although improvements were made, CBP did not substantially comply with all categories of FISMA.

Management's Response to the Independent Auditor's Report

U.S. Department of Homeland Security
Washington, DC 20229



U.S. Customs and
Border Protection

NOV 15 2009

TO: Inspector General
Department of Homeland Security

FROM: Chief Financial Officer
Customs and Border Protection

SUBJECT: Management Response – Independent Auditor's Report on U.S. Customs
and Border Protection's (CBP) Fiscal Year 2005 Consolidated Balance
Sheet

On behalf of CBP, I am responding to the Independent Auditor's Report on CBP's Fiscal Year 2005 Consolidated Balance Sheet included in our Fiscal Year 2005 Performance and Accountability Report.

We concur with the three material weaknesses as well as the two other reportable conditions, and three instances on non-compliance with laws and regulations contained in the auditor's report. Corrective action plans outlining our strategy to correct these conditions will be prepared and provided to the Office of Financial Management, U.S. Department of Homeland Security. Some of these conditions can take several years to correct. CBP will continue to focus on and strive to improve our efforts to address the conditions and non-compliance issues contained in the auditor's report.

I am confident that the professional, cooperative working relationship between our staffs will result in improvements and efficiencies in our respective reporting and auditing practices.

If you have any questions, please do not hesitate to call me at (202) 344-2300.

Thank you,

A handwritten signature in blue ink that reads "R. Balaban". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Richard L. Balaban

Acronyms

ABCI	Arizona Border Control Initiative	FY	Fiscal Year
ACE	Automated Commercial Environment	FYHSP	Future Year Homeland Security Program
ACS	Automated Commercial System	GAAP	Generally Accepted Accounting Principles
AD/CV	Antidumping and Countervailing	GAO	Government Accountability Office
AFR	Advance Passenger Information System Final Rule	GSA	General Services Administration
AMO	Air and Marine Operations	HRM	Human Resources Management
APIS	Advance Passenger Information System	INA	Office of International Affairs
ATS	Automated Targeting System	IPIA	Improper Payments Information Act
CBP	U.S. Customs and Border Protection	IR	Interior Repatriation
CFO	Chief Financial Officer	MIIA	Office of Management Inspections and Integrity Assurance
COMPEX	Compliance Measurement Examination	NCIC	National Crime Information Center
CSI	Container Security Initiative	NII	Non-Intrusive Inspection
CSRS	Civil Service Retirement System	NLETS	National Law Enforcement Telecommunications Systems
C-TPAT	Customs Trade Partnership Against Terrorism	OAT	Office of Anti-Terrorism
DHS	Department of Homeland Security	OBP	Office of Border Patrol
DNDO	Domestic Nuclear Detection Office	OCA	Office of Congressional Affairs
DOL	Department of Labor	OCC	Office of Chief Counsel
EEO	Equal Employment Opportunity	ODI	Office of Drug Interdiction
ER	Expedited Removal	OF	Office of Finance
FAST	Free and Secure Trade	OFO	Office of Field Operations
FECA	Federal Employees' Compensation Act	OIG	Office of Inspector General
FERS	Federal Employees' Retirement System	OINT	Office of Intelligence
FFMIA	Federal Financial Management Improvement Act	OIT	Office of Information and Technology
FISMA	Federal Information Security Management Act	OMB	Office of Management and Budget
FMFIA	Federal Managers' Financial Integrity Act	OPA	Office of Public Affairs
		OPP	Office of Policy and Planning

OR	Own Recognizance	SFFAS	Statement of Federal Financial Accounting Standards
ORBBP	Operational Requirements Based Budgeting Program	SIP	Self-Inspection Program
OR&R	Office of Regulations and Rulings	SOW	Statement of Work
OST	Office of Strategic Trade	TECS	Treasury Enforcement Communications System
OTD	Office of Training and Development	TER	Targeting Efficiency Ratio
OTR	Office of Trade Relations	TFF	Treasury Forfeiture Fund
PAR	Performance and Accountability Report	UAV	Unmanned Aerial Vehicle
PART	Performance Assessment Rating Tool	UST	Underground Storage Tanks
PC	Personal Computer	U.S.	United States
PMA	President's Management Agenda	US-VISIT	U.S. Visitor and Immigrant Status Indicator Technology
POE	Ports of Entry	WCO	World Customs Organization
PP&E	Property, Plant and Equipment	WMD	Weapons of Mass Destruction
RFID	Radio Frequency Identification	WME	Weapons of Mass Effect
SAP	Systems, Applications, and Products		



U.S. Customs and Border Protection

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