



# Performance and Accountability Report

Fiscal Year 2007



U.S. Customs and  
Border Protection



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# Message from the Commissioner



I am pleased to present the Fiscal Year 2007 Performance and Accountability Report for U.S. Customs and Border Protection (CBP).

U.S. Customs and Border Protection is charged with a dual mission of securing our nation's borders without stifling the flow of legitimate trade. Over the past year, we have made steady progress toward better protecting our country from the threat of global terrorism, while we have continued our efforts to stem illegal immigration, drug trafficking, and alien smuggling. We have also made progress in protecting our economy by enforcing Intellectual Property Rights and other trade violations, securing and facilitating legitimate travel, and protecting our food supply and agriculture industry from pests and disease.

The Department of Homeland Security's Secure Border Initiative, which includes CBP's SBInet program, is helping us gain control of our nation's borders. We are accomplishing this by determining the appropriate mix of technology, infrastructure, and personnel along the most vulnerable portions of our border. In addition, we continue to hire and deploy more Border Patrol Agents. We have also implemented the first phase of the Western Hemisphere Travel Initiative (WHTI) at all air ports of entry and are completing all regulatory, business and technical requirements necessary to implement WHTI at our sea and land ports.

As a result of the Fiscal Year 2007 Financial Audit, CBP again received an unqualified opinion on our financial statements. This outstanding accomplishment demonstrates CBP's discipline and accountability in the execution of its fiscal responsibilities as a steward of CBP programs, and reflects the second year of a full-scope unqualified audit opinion.

The Performance and Accountability Report addresses CBP's compliance with financial management requirements and identifies some areas for improvement:

- CBP has evaluated its management controls and financial management systems and is compliant with 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.
- As a result of a self-assessment, CBP identified six material weaknesses for Fiscal Year 2007, four of which existed in the previous year: 1) core financial systems, 2) financial systems functionality and technology, 3) information technology general and application controls, and 4) laptop computer security. A fifth previously reported weakness related to drawback controls has been expanded to reflect deficiencies in foreign trade zones, customs bonded warehouses and the tracking of in-bond cargo. And sixth, CBP identified the implementation of management controls for the Secure Border Initiative Program Executive Office as a new material weakness.

- While current CBP financial management systems do not substantially comply with Federal financial management systems requirements and the U.S. Government Standard General Ledger at the transaction level, CBP is modernizing its financial systems. CBP is now in its fourth year of using SAP (Systems, Applications, and Products) as an integrated solution for its budget, procurement, asset management, finance, and reporting business processes.
- KPMG LLP conducted an independent audit on CBP's Fiscal Year 2007 Financial Statements. Material weaknesses, as evidenced by the auditor's report found in the Financial Section of this report, support those identified through CBP's self-assertion process with three exceptions. The first is the material weakness on laptop computer security identified by the Department of Homeland Security (DHS) Office of the Inspector General (OIG) audit in Fiscal Year 2006. The second is the material weakness on the implementation of management controls for the Secure Border Initiative Program Executive Office, which was also identified by the DHS OIG as a major management challenge in Border Security in Fiscal Year 2006, and third, the inclusion of foreign trade zones, customs bonded warehouses, and the tracking of in-bond cargo as part of the overall drawback material weakness.

CBP will work to improve deficiencies identified in the Performance and Accountability Report and will put in place timetables for corrective action to ensure future compliance. We remain committed to sharing information on our financial and program performance each year.

This year, CBP processed over 400 million passengers and pedestrians, as well as more than 25 million sea, truck and rail containers. We apprehended over 876,000 aliens attempting to enter the U.S. illegally; seized over 1.7 million pounds of illegal drugs and collected over \$33 billion, including both custodial and entity revenue.

While our accomplishments for 2007 are impressive, CBP is a forward-looking organization with our eyes on the future. My congratulations and appreciation to the entire CBP workforce for the amazing job you have done this year, and that you continue to do each and every day to protect this nation, our citizens, and our economy. We are a can-do agency determined to accomplish our mission by working together with our partners here at home and around the world.



W. Ralph Basham  
Commissioner

November 13, 2007

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# Management's Discussion and Analysis

# Overview of CBP

## Mission

U.S. Customs and Border Protection (CBP) is the unified border agency within the Department of Homeland Security (DHS) charged with the priority mission of preventing terrorists and terrorist weapons from entering the United States, while also facilitating the flow of legitimate trade and travel. More than 46,743 CBP employees manage, control, and protect the Nation's borders at and between the official ports of entry. CBP is responsible for protecting more than 5,000 miles of border with Canada, 1,900 miles of border with Mexico, and 95,000 miles of shoreline. 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.

## Fiscal Year 2007 Statistical Highlights

- Ports of entry: 327 (includes 15 preclearance stations)
- Border Patrol sectors: 20 (with 142 Border Patrol stations nationwide and 34 permanent checkpoints)
- Air units: 40 (2 Training locations and 2 Radar/Communications locations)
- Marine units: 31 (2 Training locations)
- Trade entries processed: 30 million
- Total revenue collected: over \$33 billion (includes custodial and entity revenue)
- Illegal narcotics seized: 1.7 million pounds (represents narcotics held by CBP until disposal or destruction)
- Illegal alien apprehensions between the ports of entry: 876,704
- Inadmissible aliens interdicted at the ports of entry: 207,368
- Pedestrians and passengers processed: 414 million
- Conveyances processed: 124 million

## Drug Seizure Statistics

(Note: The following amounts represent total CBP seizures, including amounts transferred to other government agencies for disposition.)

- Number of pounds of cocaine seized: 281,371
- Number of pounds of heroin seized: 2,167
- Number of pounds of marijuana seized: 2,786,137
- Number of pounds of methamphetamine seized: 3,248

## Major Mission Programs and Strategies

As the frontline agency responsible for securing the Nation's borders while facilitating legitimate trade and travel, CBP maintains several programs to accomplish this mission. The CBP National Targeting Center uses risk assessment and targeting analysis to support these programs.



**CBP officer seizes illegal substance concealed in a vehicle.**

## Secure Border Initiative (SBI) and SBInet

The DHS has established three long-term goals to achieve the mission of securing the Nation's borders: (1) gain effective control of the borders; (2) strengthen interior enforcement and compliance; and (3) support the passage of a viable Temporary Worker Program (TWP). These three goals are highly interdependent and must be addressed simultaneously and collectively to achieve border security.

Although CBP has responsibilities across the full range of activities in the DHS Secure Border Initiative (SBI) strategy, CBP also has especially critical responsibilities in the execution and accomplishment of the SBI goal to gain effective control of the borders.

In fiscal year 2007, CBP established the SBI office within the Office of the Commissioner. The SBI office has a dual responsibility. First, the SBI office is the organization accountable for the development and oversight of the Secure Border Initiative (SBInet) program and the transportation program. Second, it will provide CBP-wide coordination, analysis, and integration of SBI-related programs and activities.

CBP is the executive agent in DHS for the development and implementation of SBInet. SBInet is the component of SBI charged with developing and installing the technology and tactical infrastructure solution for border control at and between our ports of entry. SBInet will enable CBP to determine the appropriate mix of personnel, technology, and tactical infrastructure for specific border areas. Furthermore, Secure Border Initiative (SBInet) will provide effective command, control, communications, and intelligence (C3I) of the border environment, which will provide uniform data to all DHS agencies and be interoperable with stakeholders external to DHS.



**CBP Border Patrol agent patrols a remote area near the U.S. border.**

## National Border Patrol Strategy

The land ports of entry (POEs) serve as designated access points into the United States. Between the POEs lie miles of open space, deserts, waterways, forests, and prairies, making our Nation's borders vulnerable to the threats of terrorism and to exploitation by smugglers of humans and illegal narcotics and other contraband. The CBP's Office of Border Patrol's (OBP) strategic goal is to gain and maintain control of the U.S. borders between the POEs. To assist in achieving its goal, the Border Patrol implemented the National Border Patrol Strategy in 2005, which articulates a clear, strategic mission and program purpose to establish and maintain border security. The five main objectives of the National Border Patrol Strategy are as follows:

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

To accomplish these objectives, the Border Patrol strategy requires the deployment of the "right mix" of personnel, tactical infrastructure, and technology to gain and maintain border security.

### *Personnel*

To meet the President's objective to increase Border Patrol Agents staffing by 6,000 new Border Patrol agents by the end of calendar year 2008, the Border Patrol has worked with the Offices of Human Resources Management and Training and Development in developing and implementing an aggressive plan to recruit, hire, and train new Border Patrol agents. This unprecedented hiring effort resulted in a total of 2,574 new agents added to the Border Patrol workforce in fiscal year 2007.

### *Tactical Infrastructure*

SBI and Border Patrol achieved gains in securing the border through the deployment of "Smart Border" technology, which includes tactical infrastructure (fence, vehicle barriers, roads, and lighting). Tactical infrastructure is deployed to regions of the border on the basis of terrain and threat considerations. Of the 70 miles of additional primary fence (PF-70) targeted for completion by the end of fiscal year 2007, CBP has installed 72.3 miles during fiscal year 2007, for a total of approximately 154.7 miles. A total of 109.5 miles of vehicle barriers have been installed as of September 30, 2007, and construction was completed on approximately 10.1 miles of lighting and 20 miles of all-weather roads. During fiscal year

2007, 400.2 miles of tactical infrastructure were constructed. In addition, approximately 508 miles of existing roads were repaired.

## *Technology*

Another key element of the SBI's and Border Patrol's "Smart Border" technology objective is *SBI*net. *SBI*net will provide the Border Patrol with state-of-the art technologies to support its border enforcement mission. These new technologies will enable the Border Patrol to more consistently detect, identify, classify, respond to, and resolve illegal border crossings. These new capabilities will enhance national security by making our borders more safe and secure.

## *Effective Control of the Border*

Through the deployment of the right mix of new resources and enforcement operations supported by intelligence activities, the Border Patrol increased the miles of border under effective control from 449 miles at the beginning of fiscal year 2007 to 599 miles as of September 30, 2007, a 33 percent increase.

## **Focused Law Enforcement Initiatives**

In its continuing effort to counter border threats and vulnerabilities, the Border Patrol made gains in securing the border through focused law enforcement initiatives designed to support the objectives of the National Border Patrol Strategy.

### **Defense-In-Depth Strategy—Traffic Checkpoint Operations**

The Border Patrol currently operates a combination of 34 permanent and 88 tactical traffic checkpoints nationwide as part of a three-tiered defense-in-depth strategy in securing our Nation's border between the POEs. This strategy involves the use of line-watch operations on the border, roving patrol operations near the border, and traffic checkpoints away from the border. As the third layer in the Border Patrol defense-in-depth strategy, traffic checkpoints have proven to be a critical component in the support of line-watch and roving patrol operations. Border Patrol traffic checkpoint operations play a significant strategic and tactical role in the support of the National Border Patrol Strategy beyond the immediate border area. The primary targets of an effective Border Patrol traffic checkpoint operation are terrorists and terrorist weapons, criminals, and smugglers of humans and narcotics who have successfully evaded detection at or between the POEs.

Traffic checkpoints are generally located within 100 miles of the border. Smugglers often resort to main arterial highways as an avenue to further the illegal entry of their smuggling operations into the interior of the United States and away from the immediate border area. As line-watch and roving patrol operations are conducted, traffic checkpoints seek to close off the routes for those illegal activities, which, if left unchecked, would pose a significant threat to national security. With the ability to stop and question passengers and inspect vehicles for immigration purposes, the Border Patrol is able to employ specialized resources to combat terrorism and smuggling activities. Highly trained Border Patrol agents, human- and drug-sniffing dogs, radiation alert monitors, and Vehicle and Cargo Inspection Systems (VACIS), which is a non-intrusive inspection device, not only provide opportunities to deter alien and drug smuggling but also stop other forms of potentially dangerous cargo from entering the interior of the United States.

# Overview of CBP

During fiscal year 2007, the following border enforcement successes were attributed to Border Patrol traffic checkpoint operations:

- The arrest of more than 23,334 individuals,
- 3,006 of cases referred for prosecution, and
- 3,445 narcotic seizures events/incidents (34% of the total Border Patrol narcotic seizures).

## Cooperative Enforcement Efforts—Operation Jump Start (OJS)

In June 2006, the Border Patrol began a very successful ongoing joint effort—Operation Jump Start (OJS)—with the Department of Defense to deploy National Guard members at the Southwest Border. The National Guard members perform non-law enforcement surveillance and support operations, providing a “bridge” in personnel resources as CBP continues the recruitment effort to increase border security by hiring 6,000 additional Border Patrol agents by the end of calendar year 2008. As a result of coordination and cooperation between the Border Patrol and the National Guard Bureau, OJS achieved its overall objective of enhancing border security. OJS stands out as an example of what can be accomplished through a cooperative and coordinated effort by law enforcement and military forces to protect our Nation’s borders. The National Guard members serve as additional eyes and ears for the Border Patrol as members of Entry Identification Teams (EITs). The EITs consist of Border Patrol agents and National Guard members working hand-in-hand in the detection and identification of illegal activity in border areas. The National Guard also provides assistance at Border Patrol traffic checkpoints as vehicle dismantlers assisting Border Patrol with the extraction of narcotics from concealed vehicle compartments. National Guard members also serve as surveillance camera operators and vehicle maintenance mechanics.

During fiscal year 2007, the integration of National Guard members into the border security mission provided valuable mission support enhancements, for example,

- EITs and scope operators provided a daily average of 337 miles of expanded border surveillance,
- Surveillance camera operators provided 26,240 hours of support monthly to monitor surveillance cameras,
- National Guard air assets provided 1,084 hours of aviation support monthly, and
- National Guard members improved the Border Patrol’s vehicle fleet readiness rate to an average of 90 percent.

For fiscal year 2007, National Guard members working in OJS aided in 120,662 alien apprehensions, 879 vehicle seizures, 241,679 pounds in marijuana seizures, 4,910 pounds in cocaine seizures, 95 alien rescues, and a total of \$67,985 in currency seizures.

## End of Catch and Release

On July 14, 2006, DHS announced the end of “catch and release.” In “catch and release,” some aliens, usually Other Than Mexicans (OTMs), were released after apprehension. On release, they agreed to appear at an immigration court for a hearing at a specified time in the future. Often, the illegal aliens would not appear for their hearings and, therefore, became part of the growing illegal alien population in

the United States. As releases increased, the rate of illegal entry attempts also increased, especially among illegal aliens from Brazil and Honduras. Migration patterns shifted from sector to sector with higher release rates.

A key element of CBP's ongoing efforts to deter illegal entry is the implementation and expansion of the Expedited Removal (ER) program to all Border Patrol sectors. ER is a removal process that requires mandatory detention of select classes of illegal aliens that can be removed from the United States without the recourse of an immigration hearing. These include illegal aliens who are present in the United States without having been admitted or paroled following inspection by a CBP officer at a designated POE and within 100 miles of the U.S. border, and who are unable to establish their physical presence in the United States for the 2-week period before the date of encounter. The ER program was expanded to include illegal aliens apprehended by Border Patrol on the Southwest Border as of September 14, 2005, and later extended to include apprehensions on the Northern Border as of January 30, 2006. As of September 30, 2007, 99.9 percent of aliens apprehended along the Southwest Border and Northern Border are now being detained for removal.

## **Progressive Enforcement Efforts—Operation Streamline**

Operation Streamline is an ongoing, progressive enforcement effort in the Del Rio Sector that combines intensive prosecution with expeditious removal. The effort is a collaboration between personnel and resources from CBP's OBP and Office of the Chief Counsel, Immigration and Customs Enforcement (ICE), Office of Detention and Removal, the U.S. Federal courts, the Executive Office for Immigration Review, and the U.S. Marshals Service. Based on threat levels and illegal entrant activity assessments in the border areas, the Border Patrol focuses resources in designated zones to ensure probability of apprehension, detention, criminal prosecution, prison time, and the ultimate removal of illegal entrants. All aliens apprehended within the designated zones are criminally prosecuted for violation of 8 U.S.C. 1325 (illegal entry), with a potential sentence of up to 180 days.

Operation Streamline began December 6, 2005, in Eagle Pass, Texas, along approximately 5 miles of border. By the end of June 2006, the Del Rio Sector expanded the operation to cover its entire area of operations. Since its inception, the operation has had a dramatic effect on reducing apprehensions within the sector. Members of the Del Rio Sector Prosecutions Unit received the "Team DHS Award" in 2006 from the Secretary of DHS in recognition of their successful partnership with other Federal agencies, as well as their dedicated efforts that resulted in a significant reduction of illegal entries.

On December 4, 2006, the Yuma Sector implemented an operation similar to the Streamline operation along 7 miles of border, which resulted in an initial 15 square miles of entry zones covered by the operation. By June 3, 2007, Yuma Sector expanded its version of the operation to its entire southern border with Sonora, Mexico, for a total of 93 miles. Since inception in the Yuma Sector, 100 percent of the criminal complaints filed there have been prosecuted.

## **Operation Against Smugglers Initiative on Safety and Security (OASISS)**

In March 2005, the United States and Mexico agreed to establish a bilateral standardized prosecution program titled Operation Against Smugglers Initiative on Safety and Security (OASISS). OASISS is operational at and between the POEs along the California–Baja, California, and Arizona–Sonora borders.

# Overview of CBP

Implementation of OASISS began in August 2005, with a total of six POEs and four Border Patrol sectors, which expanded to a total of 12 POEs and 7 Border Patrol sectors by the end of fiscal year 2007.

The OASISS program complements the CBP Strategic Plan and directly supports the OBP National Strategy, as well as the Office of Field Operations (OFO) strategic objectives regarding border security. In addition, this alien smuggler prosecution program was included as a priority under the Security and Prosperity Partnership between the United States and Mexico. The OASISS program is aligning itself with the broader Border Safety Initiative, as well as the various enforcement initiatives in the United States focused on combating illegal cross-border traffic in the California–Arizona border area. The Government of Mexico (GOM), specifically the Mexican Attorney General’s office, is a critical partner in this prosecution program, which is aimed at increasing safety and reducing deaths while targeting alien smugglers and human traffickers operating in the immediate border region. Through this program, the GOM prosecutes smugglers and guides who do not meet the prosecution thresholds in the United States. Engaging the GOM in border efforts like OASISS assists CBP in more swiftly gaining control of the border.

Fiscal year 2007 OASISS results included the following successes:

- Number of OBP cases generated: 236
- Number of OBP principals presented to and accepted by the GOM for prosecution: 225
- Number of OBP cases prosecuted by the GOM: 15
- Number of OFO cases generated: 26
- Number of OFO cases presented to and accepted by the GOM for prosecution: 25

## **Border Patrol Mexican Liaison Units (MLUs)**

The mission of the Border Patrol Mexican Liaison Units (MLUs) is to create and maintain positive working relationships and develop alliances with foreign counterparts. The mission objective is to increase border safety and security and further enhance the enforcement duties in direct support of two of the National Border Patrol Strategy core elements to build partnerships with other law enforcement agencies and increase border awareness. The OBP MLUs are operational in nine Southwest Border sectors. There are approximately 34 agents, including the national coordinator at OBP headquarters in Washington, DC, and a coordinator at each sector. The units act as a conduit between the OBP and representatives of Mexican local, state, and Federal law enforcement agencies located along the Southwest Border. The program was designed to support ongoing enforcement operations within their respective agencies while enhancing the liaison between them. As our foreign relationships with MLU support have solidified, contact and responses to illicit activity along the border increased, allowing for joint law enforcement support for both sides of our international border. Routine communication and cooperation between some sectors and the GOM officials have led to enhancing the security and safety of our agents working in dangerous areas along the border. Through the MLU program, information-sharing efforts have allowed the Border Patrol sectors to conduct cross-border training initiatives such as bike patrols, all-terrain vehicle training, search and rescue training, and vehicle stops.

The MLUs are working to standardize policies and procedures and are proactively developing performance measures to evaluate and measure the effectiveness of the MLU program initiatives.

## **Border Intelligence Centers (BICs)**

On October 1, 2006, the Border Intelligence Centers (BICs) were established in all Border Patrol sectors. The BICs are an innovative tactical intelligence resource center available 24 hours a day, 7 days a week to support the Border Patrol mission along our Nation's border. Originally developed as the Command and Control Intelligence Coordination Center in the San Diego Sector, the BICs represent a significant enhancement to rapidly collect, analyze, disseminate, and share intelligence information. The mission of the BICs is to prevent terrorists and terrorist weapons, smugglers and their contraband, and illegal aliens from entering the United States through real-time collection, analysis, and dissemination of tactical intelligence.

The BICs collect and analyze information through the use of databases, operational statistics, other agency intelligence reports and interviews with apprehended illegal aliens and smugglers, and the employment of geospatial decision support tools. The products of the BICs support the implementation of coordinated border enforcement operations, which result in more effective and efficient deployment of resources to address evolving threats and vulnerabilities. Actionable intelligence is forwarded to decision makers at all levels within OBP, OFO, ICE, and CBP Air and Marine (A&M) and is shared with other law enforcement partners. These efforts support CBP's commitment to become a fully integrated intelligence-driven operation.

## **Border Security Evaluation Teams (BSETs)**

The Border Security Evaluation Team (BSET) concept was initiated in the Detroit Border Patrol sector in fiscal year 2005 and developed as a mechanism for the Northern Border Patrol sectors to evaluate the level of border security within the outlying border zones of their sector. Recognized as a "Best Practice" at the 2005 Northern Border Patrol Chiefs Conference, the effectiveness of Border Patrol collaboration and coordination is exemplified by significant gains in situational awareness on the Northern Border.

In each of the eight Northern Border sectors, teams of Border Patrol agents are assigned to travel to areas within a sector's area of operation where there are limited Border Patrol resources deployed. Team members gather intelligence and establish points-of-contact with state and local law enforcement agencies, local civic leaders, and the public to determine whether suspected cross-border activities and intelligence indicate a need for deployment of Border Patrol resources in those areas. Interviews and reconnaissance efforts are structured toward identifying a cross-border nexus for terrorism and crime. The team's findings are used by the Border Patrol sectors to establish baseline border security levels and assist with the sector's planning process to identify resource requirements in support of the National Border Patrol Strategy.

The effective collaboration and coordination efforts of the Border Patrol with state and local law enforcement agencies, community groups, and citizens has resulted in improved efficiency in the use of resources toward gaining control of the border.

# Overview of CBP

## Operation Red Bull and Operation Uniforce

The Coastal Sectors of Miami and New Orleans have a long history of encounters with over-the-road (OTR) smuggling organizations that specialize in smuggling aliens from the Southwest Border area to interior destination points within or beyond their area of operation. The sectors develop intelligence-driven operations targeting smuggled aliens to include terrorists and their weapons, aliens from special interest countries, and narcotics from furthering their entry into the United States through the use of OTR smuggling organizations. Operation Red Bull was implemented in May 2006 in the Miami Border Patrol Sector and is a continuing operation. Operation Uniforce was a 2-week operation in the New Orleans Sector that was conducted during February and March 2007.

The strategic goal of Operations Red Bull and Uniforce includes integrating the disparate Federal, state, and local law enforcement efforts that are focused on cross-country, OTR smuggling into a coordinated multi-agency, multi-jurisdictional law enforcement effort with a common objective. The desired end-state includes an intelligence process that establishes a methodology of linking apprehensions and seizures back to the points of origin along the Southwest Border. Armed with this information, the sectors can review their current resource deployments, assess this new threat information, and make operational adjustments as needed.

In fiscal year 2007, Operation Red Bull resulted in 721 total apprehensions, of which 714 were traced to specific entry zones, with 61 smugglers accepted for prosecution. Operation Uniforce resulted in 407 total apprehensions, 130 of which were traced to specific entry zones within the Rio Grande Valley Sector. Five drivers and three previously deported aliens were criminally prosecuted.



**CBP A&M on patrol along the U.S. coastal border.**

## CBP Air and Marine (A&M)

CBP Air and Marine (A&M) secures the borders against terrorists, acts of terrorism, drug smuggling, and other illegal activity by operating air and marine branches at strategic locations along the borders. Multi-mission aircraft with advanced sensors and communication equipment provide powerful interdiction and mobility capabilities directly in support of detecting, identifying, and interdicting suspect conveyances, and apprehending suspect terrorists and smugglers. CBP A&M maximizes the capabilities of air and marine assets through

a cohesive joint air operations model for centralized command and control and a responsive and integrated control system for decentralized execution.

CBP A&M works in partnership with numerous stakeholders while performing its missions throughout the continental United States and the Western Hemisphere. This includes domestic operations at the borders; source, transit, and arrival zone operations; interior law enforcement support; and support to other agencies. Truly crosscutting within DHS and the Federal Government as a whole, the unique capabilities of CBP A&M serve as both a stand-alone entity and as a force multiplier. In fulfilling the

priority mission of CBP to protect the borders, our geographical disposition has shifted from a concentration on the Southern Border to include all of our Nation's borders.

## Container Security Initiative (CSI)

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

Through CSI, sea cargo containers that pose a risk for terrorism are identified and examined at foreign ports before they are shipped to the United States. CBP receives the bill of lading/manifest data on sea containers 24 hours before the containers are loaded on the vessel destined for the United States. Through partnerships with foreign governments, CSI deploys teams of CBP officials to work with their host nation counterparts to screen containers that pose a terrorism risk. CSI extends our zone of security outward so that America's borders are the last line of defense, not the first.

CSI consists of three core elements:

1. Using intelligence and automated advance targeting information to identify and target containers that pose a risk for terrorism,
2. Prescreening those containers that pose a risk at the port of departure before they arrive at U.S. ports, and
3. Using state-of-the-art detection technology to scan containers that pose a risk.

In fiscal year 2007, CSI represented the DHS and worked with the Departments of Energy (DOE) and State (DOS) to launch the Secure Freight Initiative (SFI). Whereas CSI targets containers for high-risk and possible inspection, the SFI strengthens global supply chain security by scanning 100 percent of shipping containers at SFI designated foreign ports for nuclear or radiological materials before they are allowed to depart for the United States. SFI is discussed further in the "Looking Ahead" section beginning on page 24.

At the end of fiscal year 2007, CBP officers began operations at the 58th CSI port overseas. Approximately 86 percent of cargo containers destined for the United States are processed through the 58 operating CSI ports.

As of September 30, 2007, 35 foreign administrations have joined or have committed to join the CSI program. CBP continues to expand the program to additional ports on the basis of volume, location, and strategic concerns. Strong support from countries in Europe, Asia, the Middle East, Africa, North and South America, and the Caribbean 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 ocean-going 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)

Customs–Trade Partnership Against Terrorism (C-TPAT) is part of CBP’s extended border strategy to protect America against terrorist threats, to protect the global supply chain, and to facilitate trade. Under the C-TPAT initiative, CBP partners 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. Recent Safety and Accountability for Every (SAFE) Port Act legislation further defines the C-TPAT program. SAFE Port Act legislation requires that CBP review and certify submitted security profiles within 90 days and that C-TPAT supply chain security specialists travel worldwide to validate the commitments of the certified members and recommend areas for improvement within 1 year of the certification. Certified members currently receive considerable benefits, the two greatest being fewer cargo inspections and expedited clearance processes at the border. At the end of FY 2007, there were 7,737 certified partners, of which 6,003 had been validated successfully complying with the SAFE Port Act.

C-TPAT provides a mechanism in which the business community and CBP can exchange anti-terrorism ideas, concepts, and information; both the government and business communities work together to increase the security of the entire commercial process, from manufacture through transportation and importation to ultimate distribution.

## Non-Intrusive Inspection (NII)

CBP has developed a multilayered screening process to identify, target, and inspect high-risk shipments. The Automated Targeting System (ATS), a powerful rules-based computer system, is used to automatically review the electronic bill of lading/manifest data of more than 11 million containers before they arrive at U.S. POEs, allowing CBP to flag containers that are considered high-risk. Non-Intrusive Inspection (NII) equipment is then used to scan the contents of those containers identified as high-risk or selected by CBP officers for further review.

CBP officers use large-scale NII equipment such as gamma ray and X-ray imaging systems to scan the contents of entire containers. These units can scan the interior of a full-size, 40-foot container in less than a minute. Some of the currently deployed high-energy X-ray systems can penetrate more than a foot of steel. This equipment is very effective at identifying a variety of illegal activity and contraband, including human smuggling, narcotics, weapons, and explosives. Large-scale NII equipment is deployed at nearly all U.S. land border crossings and seaports.

CBP uses radiation portal monitors to scan cargo containers for radioactive materials as they pass through vehicle-processing lanes at the land border ports or are off-loaded from ships at the seaports. Officers also use personal radiation detectors to scan for signs of radioactive materials as they perform inspections on smaller vehicles and shipments. Special high-tech tools such as densitometers and fiber-optic scopes allow officers to peer inside suspicious containers. Finally, if necessary, containers are opened and unloaded for a more thorough carton-by-carton inspection.

## **Canine Enforcement Teams**

CBP has the largest and most diverse law enforcement canine program in the United States. CBP canine officers and Border Patrol agents use specially trained detector dogs to combat terrorist threats; identify explosive threats; and interdict concealed persons, currency, agriculture, narcotics, and other contraband at our Nation's POEs, international mail facilities, and along the border between the POEs. CBP detector dogs also perform Border Patrol Search, Trauma, and Rescue missions.

Canine teams are assigned to 75 POEs and 88 Border Patrol stations throughout the United States. To meet both new and growing threats, the CBP canine program has trained and deployed canine teams in an array of specialized detection capabilities. CBP has two canine enforcement training facilities, one located in Front Royal, Virginia, and one in El Paso, Texas. In fiscal year 2007, more than 700 detector dog teams were trained.

## **Advance Passenger Information System (APIS)**

Advance Passenger Information System (APIS) is the single-most critical element of the Nation's ability to identify dangerous individuals entering or departing the United States. This system receives biographical and travel document information on passengers arriving and departing by air and sea, and recently has been expanded into the land environment for commercial bus and rail operators. Queries look for matches with multi-agency law enforcement alerts, immigrant visas, and historical databases before the passenger's arrival in the United States or departure from the United States. CBP receives advance information on passengers and crew members sufficient for basic law enforcement queries. CBP issued a final rule on August 23, 2007 with an effective date of February 19, 2008 that requires carriers to provide APIS data in advance of a passenger boarding the intended aircraft or vessel. This final rule is referred to as "APIS Predeparture" and allows CBP to check all travelers against government watch lists and to provide a "Cleared" or "Not-Cleared" response to the carrier before a boarding pass can be issued to the traveler.

## **National Targeting Center—Passenger (NTCP)**

The National Targeting Center—Passenger (NTCP) mission is to provide tactical targeting and analytical research support for CBP anti-terrorism efforts, both locally and nationally. The NTCP staff develops tactical targets from raw intelligence in support of the CBP mission to detect and prevent terrorists from entering the United States. The NTCP provides support to CBP field elements with additional research capabilities to assist officers performing passenger examinations by supplying relevant intelligence and/or law enforcement information. This support includes but is not limited to (1) the recommendation of admissibility for non-immigrants with known ties to terrorism, (2) verification of terrorist-related visa revocation records and lost or stolen passports, (3) coordination with outside agencies for positive terrorist encounters and requests for information, and (4) advance passenger research for International Airport personnel working overseas in an effort to identify lookout record matches prior to boarding. NTCP staff work closely with its onsite liaison staff to coordinate CBP's response to Transportation Security Agency (TSA) "no-fly" matches, positive Terrorist Identities Datamart Environment matches, and wanted fugitives, to name a few.

# Overview of CBP

The NTCP includes representatives from all CBP disciplines, including the OFO, OBP, Intelligence, Laboratory and Scientific Services, and Information and Technology (OIT). Permanent onsite liaisons also have been developed with a variety of external organizations, including the USCG, TSA, Office of Intelligence, Federal Air Marshals (FAMs), Federal Bureau of Investigation (FBI), ICE, Food and Drug Administration (FDA), and DOS. The NTCP strategically enhances U.S. detection and deterrent capabilities by extending them into bioterrorism prevention and rapid radiological assessments and provides ongoing targeting expertise to the DHS Operations Center.

## **National Targeting Center—Cargo (NTCC)**

The National Targeting Center—Cargo (NTCC) began operations on March 26, 2007, and moved to the new NTCC facility on May 14, 2007. The NTCC enhances remote targeting operations in support of the CSI, supports and coordinates the International Container Scanning (ICS) component of the SFI, and supports domestic port targeting. The NTCC uses advanced targeting strategies as well as new tools and technologies to enhance CBP cargo-targeting efforts. The NTCC employs a specialized permanent and temporary duty staff to provide quality 24/7 tactical and strategic cargo research in all modes. The NTCC staff includes CBP officers, agriculture specialists, field analysis specialists, physical scientists, intelligence research specialists, and import specialists, as well as personnel representing the FDA, Department of Agriculture, and the USCG.

The NTCC ascertains the nexus of identified terrorists to the cargo environment by identifying passengers entering the United States and looking for any tangible connectivity to cargo through in-depth research. The NTCC also creates Memoranda of Information Received documents and enters them into the Homeland Enforcement Communications System (HECS) to provide relevant information to all CBP officers. The NTCC supports anti-terrorism efforts via the use of the ATS cargo-targeting sweeps. The NTCC conducts weapons of mass effect sweeps daily, and subject matter experts analyze the results.

The NTCC supports the creation and refinement of new ATS rule sets and provides a sound foundation for the creation of bioterrorism/agro terrorism countermeasures. The NTCC coordinates with law enforcement agencies and the intelligence community to gather cargo-targeting information, develops field expertise for domestic and overseas targeting units via a robust temporary duty program, and supports the International Fellowship Program, which is currently in a pilot program with officials from the Japanese Customs and Tariff Bureau.

## **Fraudulent Document Analysis Unit (FDAU)**

CBP established the Fraudulent Document Analysis Unit (FDAU) to support the removal of fraudulent travel documents from circulation. The FDAU serves as a repository for fraudulent travel documents confiscated at POEs and provides tactical and strategic intelligence gathered from the seized documents to assist in apprehending other ineligible applicants who attempt to enter the United States using fraudulent travel documents.

The FDAU has developed a system of accountability for the seizure, destruction, agency use, and return of fraudulent documents to the appropriate issuing authorities. In addition, the FDAU conducts link analysis and develops tactical intelligence to include strategic targeting on a global scale, which has been successful in intercepting inadmissible travelers both prior to and on arrival in the United States. The FDAU also generates HECS lookouts, recommends carrier “off-loads” overseas, and liaisons with foreign governments to proactively target smuggling operations abroad. The FDAU provides documents to DHS components (CBP, ICE, FAMS, USCG), and to other U.S. Government agencies for training in fraudulent document detection.

## **Admissibility Review Office (ARO)**

CBP created the Admissibility Review Office (ARO) to provide a dedicated resource with institutional knowledge and a consistent approach in making determinations of admissibility, inadmissibility, and the exercise of discretion for inadmissible aliens under the Immigration and Nationality Act. The ARO works extensively with the DOS and other agencies to determine whether inadmissible aliens can legally travel as non-immigrants with waivers. Each case requires an assessment of the risk of harm to society if CBP admits the alien, which the ARO balances with the alien’s reasons for wanting to travel.

The ARO currently processes and adjudicates all waivers of inadmissibility that the DOS consular officers recommend worldwide and decides all seats of government nonimmigrant waivers. It handles all waiver decisions submitted at preclearance POEs.

## **Consolidated Trusted Traveler Programs (NEXUS, SENTRI, and FAST)**

The Consolidated Trusted Traveler Program is an umbrella of CBP’s Trusted Traveler Programs, including NEXUS, Secure Electronic Network for Travelers Rapid Inspection (SENTRI), and Free and Secure Trade (FAST), that uses a common automated system to register program enrollees and perform automated identification and validation. The goals of the program are to identify and expedite low-risk travelers and free up CBP officers to increase security at the POEs by enabling them to concentrate on high-risk travelers.

NEXUS and SENTRI are land border management processes that provide expedited CBP processing for pre-approved, low-risk travelers. Applicants must voluntarily undergo a thorough biographical background check against criminal, law enforcement, customs, immigration, and terrorist indices, and participate in a personal interview with a CBP officer. Once applicants are approved, they are issued a Radio Frequency Identification (RFID) card that will identify their record and status in the CBP database on arrival at the U.S. POE. For SENTRI members only, an RFID transponder is also issued for applicants’ vehicles, which allows users to have access to specific, dedicated primary lanes for processing into the United States.

The FAST commercial driver program is the result of the United States, Canada, and Mexico Border Partnership Action Plan. The FAST program provides expedited processing of participants’ qualifying merchandise in designated traffic lanes at select border sites.

## **US-Visitor and Immigrant Status Indicator Technology (US-VISIT)**

The US-Visitor and Immigrant Status Indicator Technology (US-VISIT) program, launched in 2004, continues to be deployed at many of our land, sea, and air POEs. This system provides CBP officers at primary and secondary inspection stations with biometric identifiers such as fingerprints (using an inkless fingerprint scanner) and photographs (using a digital camera) to verify the identity of foreign nationals wishing to enter the United States. US-VISIT's biometric information helps prevent identity fraud by providing unalterable, unassailable identity information. It is an integral part of the entry-exit system that provides CBP with unique identity information to aid in determining whether someone has remained in the country longer than authorized. This system interacts with existing criminal databases that identify people with criminal histories and those who may be linked to terrorist activities.

The US-VISIT ePassport capability was implemented beginning in September 2006 and completed in November 2006 covering 97 percent of visa waiver traffic. When the ePassport is scanned, the system displays the individual's biographic data and photograph from the chip on the ePassport to the CBP officer, who can then validate that the biographic data match the individual seeking admission. This provides an additional level of security to ensure that the passport is authentic and belongs to the presenter.

## **Automated Commercial Environment (ACE)**

Automated Commercial Environment (ACE) is the modernized U.S. trade processing system designed to consolidate and automate cargo processing to significantly enhance border security and foster our Nation's economic security through lawful international trade and travel. Among other capabilities, CBP personnel will have automated tools and better information to decide 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 before a shipment reaches U.S. borders.

After September 11, 2001, it became evident that the Federal Government had to establish an inter-agency ability to ensure a central information clearinghouse with compatible databases of information on all aspects of border control. As a result, the scope of ACE was expanded to include all Federal agencies with missions tied to international trade and transportation, including related security, regulation, and analysis. The International Trade Data System (ITDS) provides a secure, integrated, government-wide system to meet the private and Federal requirements for the electronic collection and use of standard trade and transportation data by all Federal agencies. The decision was made to use the ITDS requirements, in delivering ACE functionality, to meet the needs of these agencies as well as CBP. The result is that ACE, using requirements from ITDS, will provide a "single window" for the electronic submission of all trade and transportation data.

ACE supports the following major CBP business areas: release processing, entry processing, revenue collection, account relationships, legal and policy, enforcement, business intelligence, and risk. It is in direct alignment with the President's Management Agenda (PMA). To maintain this alignment, ACE uses e-business technologies whenever possible and is governed by citizens' needs. ACE also provides national account-based processing and periodic monthly statement features that benefit both CBP and the trade community as CBP moves away from transaction-by-transaction processing.

## **World Customs Organization (WCO)**

In June 2005, the World Customs Organization (WCO) unanimously adopted the SAFE Framework of Standards to Secure and Facilitate Global Trade (known as the "Framework"), which seeks to protect the global supply chain from the threat of terrorism and transnational crime while simultaneously facilitating legitimate trade.

The Framework seeks to

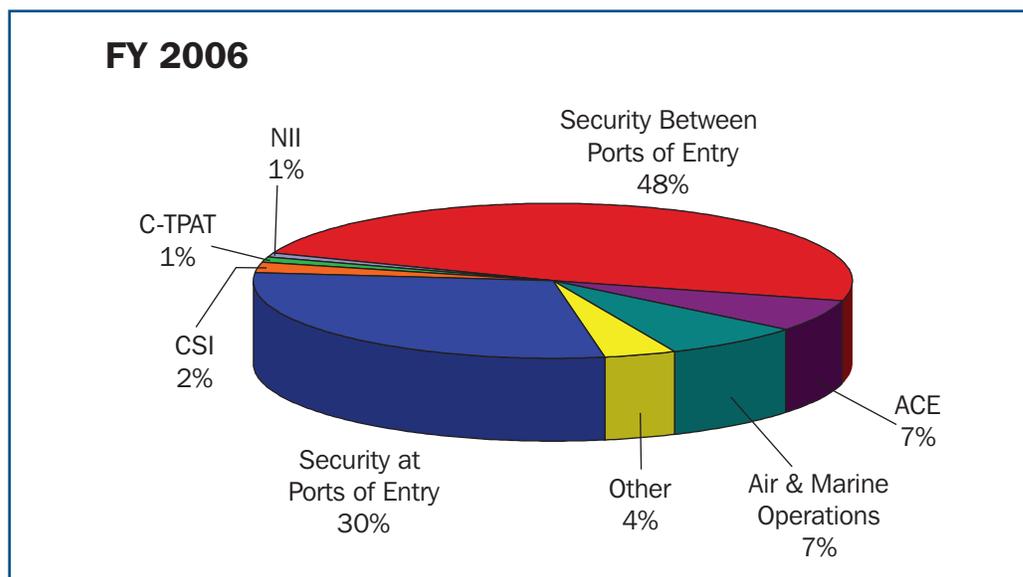
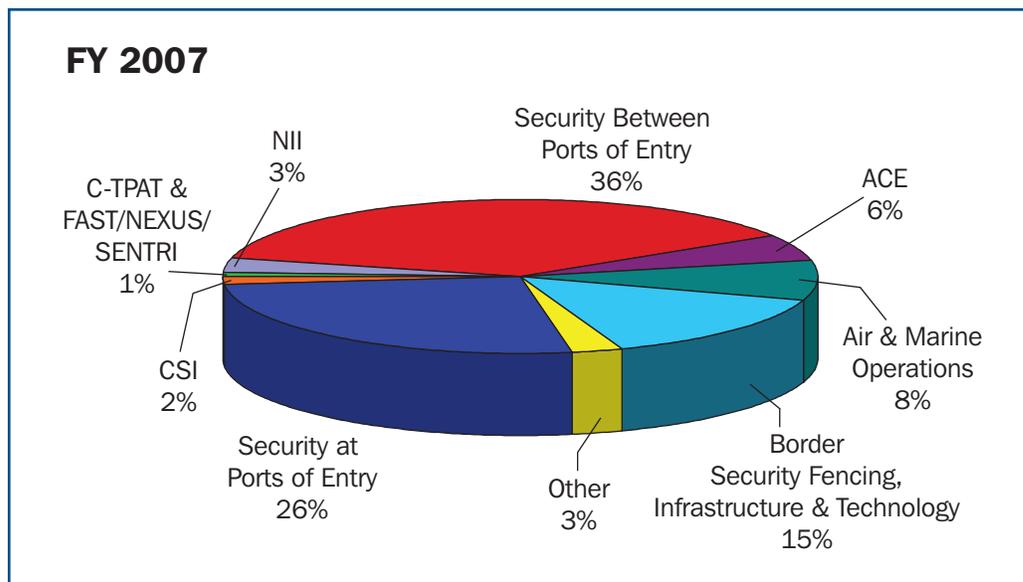
- Consolidate advance electronic cargo information requirements,
- Institute consistent risk management approaches to address security threats,
- Establish procedures so that the customs administration in the destination country of a shipment can request customs in the originating country to conduct an inspection on its behalf, and
- Define benefits for businesses that meet supply chain security standards and best practices.

Implementation represents an extraordinary challenge for the customs administration of any country, particularly for one that may not have the resources or subject matter expertise readily available to implement the practices identified in the Framework.

Because CBP recognizes that widespread implementation of the Framework substantially contributes to the major strategic goals of the agency, CBP is providing capacity-building assistance to 10 countries, all of which have demonstrated their commitment to implementation. Such capacity-building assistance takes the form of onsite diagnostic assessments, training, and technical assistance on the most salient issues appearing in the Framework. In 2006, CBP conducted one in-country diagnostic assessment, the last required in the initial phase of assistance. In fiscal year 2007, CBP conducted 32 training missions and 5 senior consultations to raise awareness and support for Framework implementation at the highest political levels. In addition, CBP participated in a Global Dialogue on Capacity Building, organized in April 2007 as a forum to increase global donor interest in providing customs-related technical assistance.

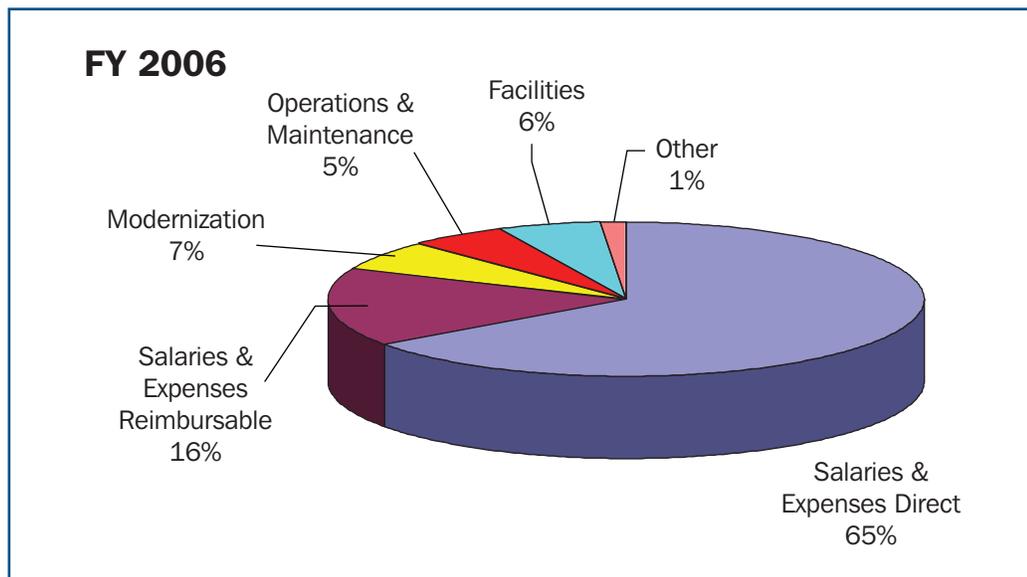
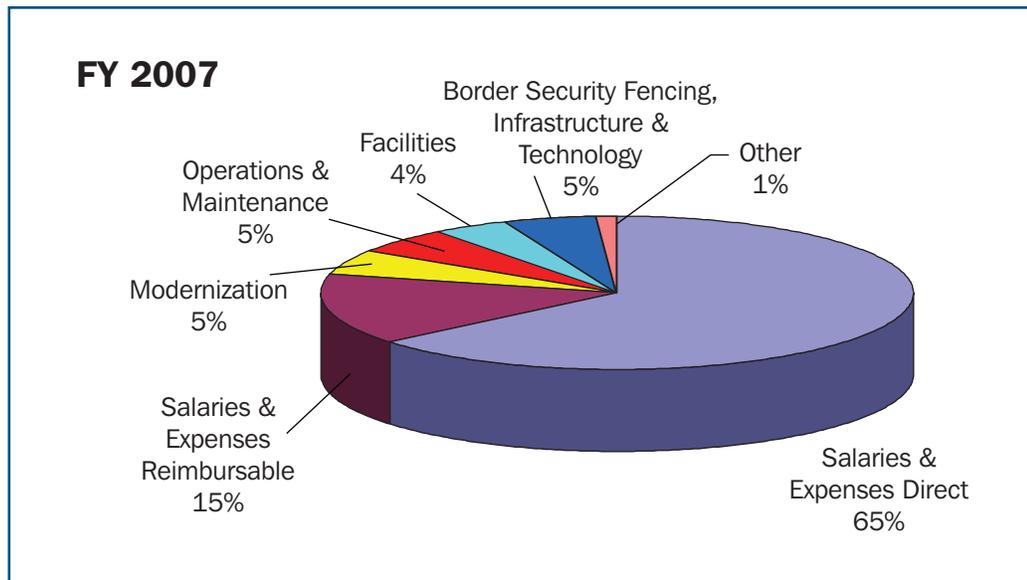
## Budget by Program

The charts below present a comparison of the fiscal year budgets by major program element for FY 2007 and FY 2006. These charts are based on direct appropriations received of \$8.2 billion in FY 2007 and \$6.8 billion in FY 2006. Direct appropriations equal total entity appropriations of \$6.7 billion during FY 2007 and \$5.4 billion during FY 2006 shown on the Consolidated Statement of Changes in Net Position, plus \$1.5 billion and \$1.4 billion in Merchandise Processing Fees transferred to and used for Salaries and Expenses during FY 2007 and FY 2006, respectively.



## Budget Resource Obligations

The charts below present a comparison of the distribution of CBP budget resource obligations for FY 2007 and FY 2006. These charts are based on current year, entity obligations totaling \$9.2 billion in FY 2007 and \$7.2 billion in FY 2006. These totals do not include non-entity obligations and obligations related to prior year appropriations totaling \$3.3 billion during FY 2007 and \$3.1 billion during FY 2006 included in the Consolidated Statement of Budgetary Resources obligations totals of \$12.5 billion and \$10.3 billion for FY 2007 and FY 2006, respectively.



## Looking Ahead

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



**CBP personnel preparing to offload containers for scanning.**

### Secure Freight Initiative (SFI)

The Secure Freight Initiative (SFI) is a joint effort of DHS, represented by CBP and DOE to fulfill the requirements set out by Congress in the SAFE Port Act of 2006. By October 13, 2007, the Act required SFI to establish three ports in key locations around the world with pilot integrated scanning systems. Under the initiative, which works closely with and through CSI (discussed in the “Management Discussion and Analysis” section beginning on page 5), the capability to scan 100 percent of all cargo bound for the United States with radiation detection and NII equipment

and to provide the data from these systems to U.S. officials at the National Targeting Center (NTC) for analysis will be evaluated.

The SFI successfully began operations at the three pilot ports on schedule. Operational testing of secure freight equipment began at Puerto Cortés, Honduras, on April 2, 2007. In partnership with the Government of Pakistan, SFI began transmitting data from a new radiation scanning system in Port Qasim on April 30, 2007. Integrated scanning of U.S.-bound containers at the third port, Southampton, United Kingdom, began in early October 2007.

In addition to the three pilot ports required by the SAFE Port Act, SFI added four additional ports to the evaluation to help determine the impact of scanning at large-volume ports, as well as at ports where a large number of transshipments are processed. SFI will conduct radiation scanning on a limited capacity basis: Singapore’s Brani terminal; Busan, South Korea’s Gamman terminal; Hong Kong’s Modern Terminal; and Port Salalah, Oman.

In addition to being a preventive tool in the Global War on Terror that will make borders safer and will increase the economic efficiency of exports, SFI will also increase the security of the international supply chain for shippers and will promote close cooperation between the United States and foreign customs administrations.

The testing of full-scale radiation scanning and X-ray imaging at these foreign ports, with near real-time data transmission to the host government and resources in the United States, will assist in developing the next generation of technology to expand border security and strengthen the global supply chain. Phase I results will provide guidance on future port expansion.

## Western Hemisphere Travel Initiative (WHTI)

The Intelligence Reform and Terrorism Prevention Act of 2004 requires DHS and DOS to develop and implement a plan to require all travelers—U.S. citizens and foreign nationals alike—to present a passport or other acceptable document that denotes identity and citizenship when entering the United States. Congress amended portions of the Act in 2006. The Western Hemisphere Travel Initiative (WHTI) is the joint DHS and DOS plan to implement the September 11th Commission’s recommendation and congressional mandate.

The goal of WHTI is to strengthen border security and facilitate entry into the United States for U.S. citizens and legitimate international visitors. WHTI was successfully implemented for air travel on January 23, 2007, and has maintained an extremely high compliance rate. U.S. and Canadian citizens entering the United States across the land borders are not currently required to carry or present identity and citizenship documents, making it difficult to verify that people are who they say they are.

The passport issued to international standards is the document of choice because of its security features, compatibility with current infrastructure in the Nation’s airports and seaports, and use of international standards and interoperability with all other countries. CBP is collaborating with the DOS in the development of the passport card for U.S. citizens to use at the land borders. This document will be available in a card format, will use advanced technology, including RFID, to facilitate the primary inspection process, and will cost less than the standard U.S. passport book. RFID has been used successfully along our land borders with Canada and Mexico since 1995. Through Trusted Traveler Programs, such as NEXUS, SENTRI, and FAST, U.S. border officials are able to expedite legitimate cross-border travel and trade. Membership in these programs currently exceeds 368,000 travelers.

CBP has entered into an agreement with the State of Washington on a pilot project to produce enhanced drivers licenses that would meet the requirements of WHTI for border crossing. Discussions are underway with other states and Canadian provinces for exploring this option as a viable WHTI solution.

## US-VISIT—10-Print

In fiscal year 2007, the US-VISIT program began to move forward with the development of a 10-fingerprint (10-print) capability at CBP POEs. The 10-print biometric print will further our efforts to prevent identity fraud by providing unalterable, unassailable identity information. It is an integral part of the entry-exit system that provides CBP with unique identity information to aid in determining whether someone has remained in the country longer than authorized. This system interacts with existing criminal databases that identify people with criminal histories and those who may be linked to terrorist activities.

## Unmanned Aircraft System (UAS)

Beginning in November 2004, CBP conducted test programs using unmanned aircraft for surveillance missions along the U.S.–Mexico border in Arizona. The test results were very positive, and CBP initiated the Unmanned Aircraft System (UAS) in 2005. The UAS provides an efficient and reliable supplement to existing detection and intelligence-gathering technologies. Unmanned aircraft have a significant advantage over manned aircraft, with the capability to fly for more than 30 hours without refueling. This technology has proven highly successful in supporting existing manned aircraft, maintaining current ground assets, and monitoring remote portions of the border that are often difficult to reach safely or are unable to accommodate infrastructure devices. Since the start of operations in 2004, UASs have been instrumental in the apprehension of undocumented aliens, the seizure of drugs, and the recovery of stolen vehicles. UASs have proven effective in locating subjects during hours of darkness and providing an unparalleled situational awareness and officer safety capability.

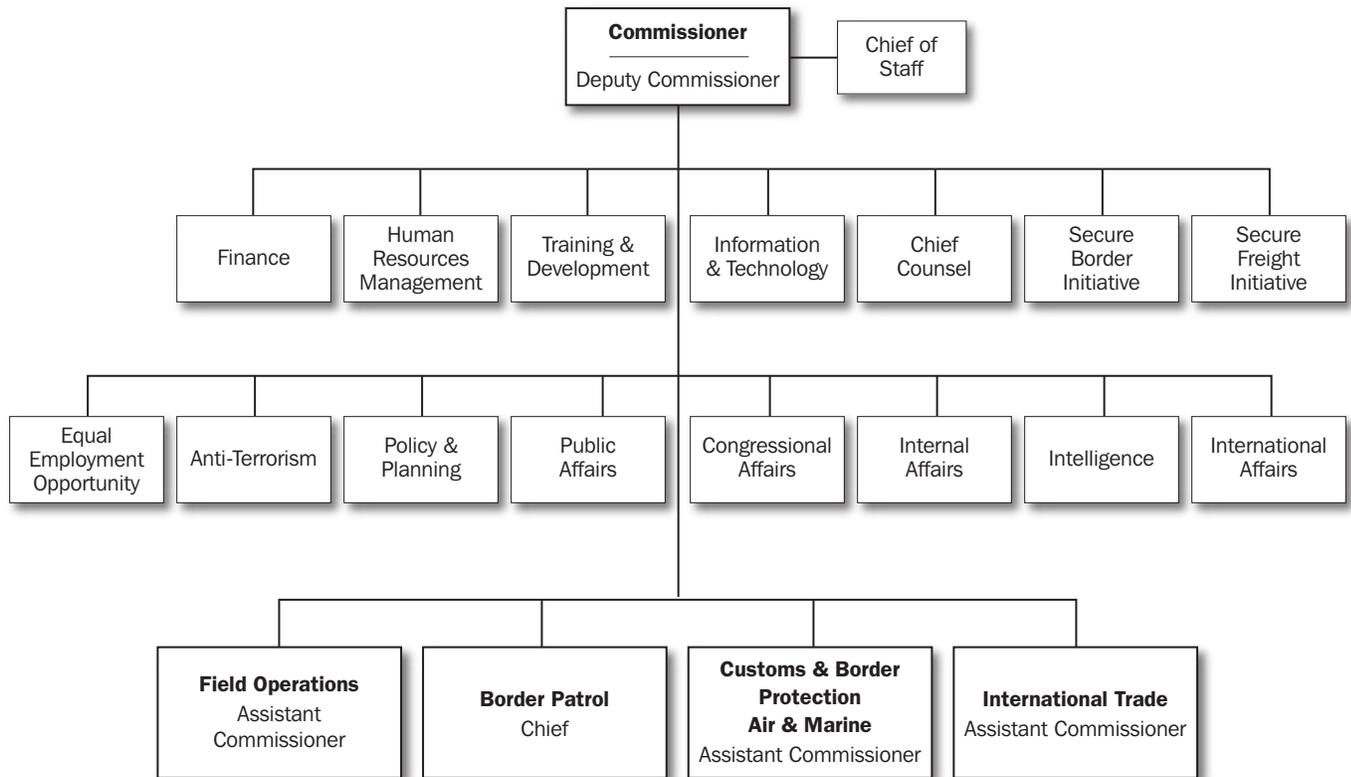
UASs will continue to be used in securing the border of the United States by providing strategic intelligence, surveillance, and interdiction support. CBP was the first Federal law enforcement agency to fly unmanned aircraft on a sustained basis, outside of controlled airspace, within the United States. UAS operations will expand as additional systems are delivered to the Southwest Border, deployed for test and evaluation to the Northern Border, and re-outfitted with maritime search radars for test and evaluation in the Southeast Coastal area of responsibility.

## Summary

CBP will continue to integrate state-of-the-art technologies and traditional security infrastructures at U.S. POEs and along our borders and work in collaboration and partnership with the trade community and foreign governments to secure our country from terrorists and terrorist weapons while facilitating world commerce.

# Organization

## U.S. Customs and Border Protection



## Headquarters

**Office of the Commissioner:** W. Ralph Basham was sworn in by President George W. Bush on June 6, 2006, to serve as the second Commissioner of U.S. Customs and Border Protection, the agency of DHS responsible for managing, controlling, and securing our Nation's borders. As Commissioner, Mr. Basham advances CBP's priority mission of preventing terrorists and terrorist weapons from entering the United States while facilitating legitimate trade and travel.

**Office of the Deputy Commissioner:** Jayson P. Ahern was appointed Deputy Commissioner, CBP, in August 2007. As Deputy Commissioner, Mr. Ahern 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 19 separate offices, each of which reports directly to the Commissioner. The mission of each office is described briefly below:

**Office of Anti-Terrorism (OAT):** Serves as the principal adviser to the Commissioner and other senior officials on CBP anti-terrorism programs. To meet CBP's mission, OAT monitors, coordinates, recommends, assesses, and participates in the development of all policy, programs, training, and matters related to anti-terrorism. OAT maximizes CBP's anti-terrorism efforts by leveraging and working within the broader Federal law enforcement community and homeland security structure. OAT provides anti-terrorism expertise and supporting policy development, while serving as a focal point for interaction and cooperation with the interagency community on terrorism-related issues. OAT, in conjunction with CBP's operational offices, coordinates incident management operations, heightened threat responses, and counter-drug activities, while providing information and situational awareness to the Commissioner and other senior officials through round-the-clock management of the Commissioner's Situation Room.

**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 adviser on intelligence matters. OINT is responsible for directly supporting the Commissioner and senior CBP leadership by obtaining, analyzing, and disseminating intelligence in a timely manner to assist CBP in carrying out its primary mission of detecting, identifying, and preventing terrorists and terrorist weapons from entering the United States. OINT directs and efficiently manages an integrated intelligence capability that ensures that frontline operators and senior leadership have the value-added intelligence required to drive operations and support policy. Finally, through membership on the Homeland Security Intelligence Council, OINT's responsibility is to represent CBP's intelligence interests to the DHS Chief Intelligence Officer and assist in directing the DHS intelligence enterprise in providing "one DHS face" to the National Intelligence Community.

**Office of Policy and Planning (OPP):** Advises the executive staff on policy development and implementation in the broad array of issues addressed by CBP, including national border security policy, immigration enforcement, cargo security and facilitation, agriculture protection, interagency coordination, and legislation. The office further coordinates with individual offices and programs inside and outside the agency to develop specific strategies and planning guidance that support the CBP mission. This includes managing the strategic planning process and performance measurement requirements related to the Government Performance and Results Act (GPRA), the Performance Assessment Rating Tool (PART), and the President's Management Agenda (PMA). In addition to the policy and planning activities of the office, OPP serves as the central coordination point for congressional reporting and all matters under review or audit by the Government Accountability Office (GAO) and the DHS Office of the Inspector General (OIG).

**Office of International Trade (OT):** Provides the unified strategic direction for trade policy and facilitation, program development, and enforcement response functions in CBP. Established in fiscal year 2007 to consolidate trade policy and program development functions, OT directs national enforcement responses through effective targeting of goods crossing the border, as well as strict, swift punitive actions against companies participating in predatory trade practices, including textile transshipment and intellectual property rights infringement. Through coordination with international partners and other U.S. Government agencies, OT directs CBP risk-based programs designed to detect and prevent the importation of contaminated agricultural products, goods that present health and safety risks, and products requiring protection from unfair trade practices. OT is also an agency leader in promoting trade facilitation through partnership programs. OT streamlines the flow of legitimate shipments and fosters corporate self-governance as a means of achieving compliance with trade laws, regulations, and international trade agreements. A risk-based audit program is used to respond to allegations of commercial fraud and to conduct corporate reviews of internal controls to ensure that importers comply with trade laws and regulations. Finally, OT provides the legal tools to promote facilitation and compliance with customs, trade, and border security requirements through the issuance of CBP regulations, binding rulings and decisions, informed compliance publications, and structured training and outreach on international trade laws and CBP regulations.

**Office of Secure Border Initiative (SBI):** Is accountable for the development and oversight of the SBInet technology and tactical infrastructure programs, as well as CBP's transportation programs. Established in fiscal year 2007, the SBI office provides CBP-wide coordination, analysis, and integration of SBI-related programs and activities. In addition, SBI serves as an integrator and a facilitator for border security programs and activities, particularly those that impact multiple CBP organizations or require strategic coordination and perspective.

**Office of Secure Freight Initiative (SFI):** Works to raise domestic and international maritime security and strengthen foreign port capabilities to detect and interdict maritime threats. Established in fiscal year 2007, SFI develops and uses a global detection network that enables real-time communication of container images and radiological detection data to the United States from other countries engaged in maritime security.

**Office of CBP Air and Marine (A&M):** Protects the American people and Nation's critical infrastructure through the coordinated use of integrated air and marine forces to detect, interdict, and prevent acts of terrorism and the unlawful movement of people, illegal drugs, and other contraband toward or across the borders of the United States. CBP A&M's core competencies include air and marine interdiction, air and

# Overview of CBP

marine law enforcement, and air and national border domain security. CBP A&M further supports DHS missions, such as response and recovery to natural disasters and terrorism.

**Office of Border Patrol (OBP):** Serves as the CBP law enforcement organization with the primary responsibility for preventing terrorists, weapons of terrorism, illegal aliens, drugs, and those who smuggle them from entering the United States between the POEs. The Border Patrol is organized into 20 sectors along the southwestern, northern, and coastal areas of the United States.

**Office of Chief Counsel (OCC):** Serves as the chief legal officer of CBP and reports to the General Counsel of DHS. 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 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 United States at the POEs. OFO maintains programs at 20 field operations offices; 327 POEs, which include 15 pre-clearance stations in Canada, the Caribbean, and Ireland; and 58 Container Security Initiative ports worldwide. A Director of Field Operations heads each field operations office. Port Directors oversee POEs in their operational areas, where virtually all conveyances, passengers, and goods legally enter and exit the United States. OFO oversees the enforcement of laws and regulations while ensuring the safe and efficient flow of goods and people through the POEs.

**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 administering \$11 billion that is budgeted annually for law enforcement and trade operations and collecting more than \$33 billion in custodial and entity 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, asset management, financial systems, and financial management.

**Office of Human Resources Management (HRM):** Provides human resources support by filling positions, offering employee services and benefits, processing personnel actions, improving business processes, and facilitating workforce effectiveness. HRM also promotes and enables mission accomplishment through human capital planning and utilization, strategic leadership, labor–management relations, and employee safety.

**Office of Information and Technology (OIT):** Provides CBP with information, services, and technology solutions to secure the border, prevent the entry of terrorists or terrorist weapons, and facilitate legitimate trade and travel. In addition, OIT operates a round-the-clock secure, stable, and high-performance Information Technology (IT) infrastructure and supports tactical communications, scientific solutions, and forensic services. OIT implements and supports CBP's information technology, automation, and technology strategies. OIT personnel manage all computers and related resources, including all operational aspects of the Computer Security Program. OIT also establishes requirements for computer interfaces

between CBP and various trade groups and government agencies, and manages matters related to automated import processing and systems development.

**Office of International Affairs and Trade Relations (INATR):** Facilitates and supports all international programs, activities, and foreign initiatives for CBP. Reorganized in fiscal year 2007, INATR also conducts outreach to and serves as a resource for the international trade community on a range of CBP policy issues. INATR works with our international partners to implement programs and initiatives to combat international terrorism and to extend our borders. INATR achieves these objectives by developing and maintaining collaborative relations with foreign governments, devising international strategies, advocating CBP positions in international forums, delivering international technical assistance and training, and supporting the negotiation of international agreements.

**Office of Internal Affairs (IA):** Exercises oversight authority for all aspects of CBP operations, personnel, and facilities. IA 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. IA 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):** Communicates CBP's mission and operations to the agency's chief stakeholders, which include the American public, foreign nationals who conduct business in the United States, international trade entities, and travelers who cross U.S. borders. Tools used in the national and international public communication process include media outreach and public information campaigns conducted via media events, video, photography, and informational brochures. In addition, CBP maintains a public Web site—[www.cbp.gov](http://www.cbp.gov)—and a national customer service call center to address public questions and complaints. OPA also keeps the CBP workforce informed through the CBPnet Intranet site, the weekly e-mailed news compilation "Frontline News," and mass e-mails. A bimonthly newsletter, "CBP Today," is distributed to CBP personnel and other stakeholders nationwide.

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

# Overview of CBP



## U.S. Customs and Border Protection

**ALASKA**

Fairbanks  
Anchorage  
Alcan  
Skagway  
Juneau  
Kodiak

**HAWAII**

Nawiliwili-Port Allen  
Honolulu  
Kahului  
Hilo/Kona

**GUAM**

Tamuning





- PRECLEARANCE STATIONS**
- ARUBA**
  - BAHAMAS**  
Freeport  
Nassau
  - BERMUDA**
  - CANADA**  
Calgary  
Edmonton  
Halifax  
Montreal  
Ottawa  
Toronto  
Vancouver  
Victoria  
Winnipeg
  - IRELAND**  
Dublin  
Shannon

**CARIBBEAN AREA**

**RAMEY SECTOR**  
 EASTERN time during Spring/Summer  
 ATLANTIC time during Fall/Winter  
 San Juan Seaport & Airport  
 CAMOC  
 Aguadilla  
 Ramey  
 Mayaguez  
 Boqueron  
 Ponce  
 Key West

**SAN JUAN**  
 Coral Bay  
 Charlotte  
 Cruz Bay  
 Amalie  
 Frederiksted

Revised 05/07

# Performance Goals and Results

In fiscal year 2007, CBP made significant progress toward achieving the long-term goals set forth in the Strategic Plan for Fiscal Years 2005–2010. Agency progress is described in this Performance and Accountability Report (PAR). The information 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 the first full year of CBP operations occurred in fiscal year 2004, four full years of data are not available for trend analysis.

## Performance Management

The CBP comprehensive strategic planning process is driven by the need to address the global challenges to secure the Homeland and the Nation's economic security. The CBP Strategic Plan is based on the priorities that were established and articulated by the Secretary of Homeland 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 GAO, the DHS 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.

## Fiscal Year 2007 Performance by Strategic Goal

This section presents a discussion of highlighted fiscal year 2007 performance objectives and related key performance measures for each of CBP's strategic goals. Additional performance measures and results can be found in the "Performance" section under "Performance Summary," beginning on page 66.

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



**CBP uses non-intrusive imaging technology to inspect the contents of a truck at the port of entry.**

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

**Performance Objective**—Improve identification and targeting of potential terrorists and terrorist weapons through risk management and automated advance 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.

# Performance Goals and Results

<b>Performance Measure</b> —Number of foreign cargo examinations resolved in cooperation with the Container Security Initiative (CSI).					
Description:	The number of container examinations processed or mitigated by foreign customs officials that were identified by CBP CSI as higher-risk and accepted as meeting CBP examination standards and requirements. This measure provides an indicator of the benefit of locating CBP Officers at foreign locations that are cooperating with CBP under CSI.				
<b>Key Highlight</b>					
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	2,400	25,222	30,332	31,000	18,438
Explanation of FY 2007 Results:	<b>Target Not Met</b> —The CSI Program added eight ports to the program during FY 2007, bringing the total number to 58 foreign ports. The increased collaboration of foreign and collocated CSI customs personnel at foreign ports reflected by this proxy measure supports the goal of targeting, screening, and apprehending high-risk international cargo and travelers to prevent terrorist attacks, while providing processes to facilitate the flow of safe and legitimate trade and travel. CSI teams' container targeting effectiveness improved in FY 2007 such that the number of containers that required assistance by host nation intelligence to mitigate high-risk shipments decreased dramatically.				
Recommended Action:	The reduction observed for this measure in FY 2007 was the result of significant efficiency improvements in Automated Targeting System (ATS) targeting algorithms and increased use of non-intrusive inspection (NII) or physical examinations to examine high-risk shipments. Because of these permanent improvements in effectiveness for this measure, CBP expects to maintain this level of activity on an ongoing basis in the future.				
<b>Data Source:</b> CBP Automated Targeting System					

**Performance Objective**—Strengthen the CBP defense-in-depth approach through the use of state-of-the-art detection and sensor technology, resources, and training.

The goal of CBP is to screen 100 percent of all people, cargo, and conveyances entering the United States based on national security threshold targeting and to examine all identified people, cargo, and conveyances scoring above a mandatory threshold both abroad and at U.S. borders. Frontline officers and agents will use an array of radiation detection technology including personal radiation detectors. CBP will build on existing NII technology and expand the explosive and chemical detection canine program.

## Performance Goals and Results

<b>Performance Measure</b> —Percent of active commissioned canine teams with 100 percent detection rate results in testing of the Canine Enforcement Team.					
Description:	The Canine Enforcement Program supports the protection of America and its citizens through twice yearly testing of the Canine Enforcement Teams and by maintaining a standard of full detection. To meet both new and existing threats, the CBP canine program has trained and deployed canine teams in a broad array of specialized detection capabilities. Any team exhibiting a weakness in detection capability for an area in which it has been trained must undergo additional training to bring it to a level of full detection.				
<b>Key Highlight</b>					
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	N/A	99%	100%	99.5%	99.9%
Explanation of FY 2007 Results:	<b>Target Met</b> —The CBP canine program has been successful at maintaining the highest detection rates of any canine program in the country, even though it is the largest and most diverse. This is due primarily to high training standards and regular testing to identify deficiencies early. CBP will continue to emphasize frequent testing and retraining in order to continue expanding detection capabilities while maintaining the highest detection rates possible. Well-trained canine units help stop explosives, illegal drugs, prohibited agriculture products, illegal immigrants, and undeclared currency from entering U.S. borders.				
<b>Data Source:</b> Canine Enforcement Program (CEP).					

**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.

Working with foreign Attaché officers, foreign governments and the trade community, CBP prescreens and targets shipments and containers that pose a potential risk for terrorism, before they arrive at U.S. POEs, using advance manifest information. The CBP CSI establishes a physical presence at foreign ports, shares intelligence and leverages technology to enhance the screening and examination of containers.

CBP will continue to work with its foreign government counterparts to increase detection and interdiction capabilities of people, goods and materials from the points of origin through their transit areas to their final destination.

# Performance Goals and Results

<b>Performance Measure</b> —Percent of worldwide U.S. destined containers processed through CSI ports.					
Description:	The percentage of worldwide U.S.-destined 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.				
<b>Key Highlight</b>					
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	45%	73%	82%	86%	86%
Explanation of FY 2007 Results:	<b>Target Met</b> —The CSI Program added eight ports to the program during FY 2007, bringing the total number to 58 foreign ports. This resulted in increasing the total number of containers processed through CSI ports, which also increased the percentage of worldwide U.S. destined containers processed through CSI ports. Reviewing a higher percentage of U.S. destined cargo processed through CSI ports increases the likelihood of targeting, screening, and apprehending high-risk international cargo before embarkation to a U.S. POE to prevent terrorist attacks, while providing processes to facilitate the flow of safe and legitimate trade and travel from more foreign ports.				
<b>Data Source:</b> Shipping volume processed through the ports (bills of lading), Port Import Export Reporting Service (PIERS).					

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



**Border Fencing along the U.S. and Mexico border is crucial to minimize illegal border crossings.**

To achieve this strategic goal, CBP is implementing the National Border Patrol Strategy, with the goal of establishing and maintaining control of the borders. The 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 tactical 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 POEs, 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.

# Performance Goals and Results

<b>Performance Measure</b> —Border miles under effective control (including certain coastal sectors).					
Description:	The number of border miles under control where the appropriate mix of personnel, technology, and tactical infrastructure has been deployed to reasonably assure that when an attempted illegal alien is detected, identified, and classified, the Border Patrol has the ability to respond and the attempted illegal entry is brought to a satisfactory law enforcement resolution. As the Border Patrol continues to deploy additional resources based on risk, threat potential, and operational need, the number of miles under control will increase.				
<b>Key Highlight</b>					
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	N/A	288 Miles	449 Miles	524 Miles	599 Miles
Explanation of FY 2007 Results:	<b>Target Met</b> —Border Patrol exceeded its 524 mile target in FY 2007 through the continued application of the Border Patrol’s multi-year deployment strategy. Most of the gains were attributable to the 2,574 new Border Patrol agents hired during the year. The Border Patrol also received augmentation by National Guard troops participating in Operation Jump Start (OJS). Gains were made through the completion of additional primary fence, secondary fence, and vehicle barriers along the southwest border enhancing its enforcement capabilities. The Border Patrol added four ground surveillance radar systems that enhanced its ability to detect illegal entries in some of the vast, remote areas on the southwest border.				
<b>Data Source:</b> Operational Requirements Based Budget Program (ORBBP) database.					

## Strategic Goal #3—Unifying as One Border Agency



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

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.

**Performance Objective**—Establish a unified primary inspection process for passenger processing at all POEs into the United States and fully integrate analysis and targeting units.

Electronic targeting systems allow CBP the ability to accurately and efficiently identify a potential risk to border security in any conveyance entering the United States. This effort is improved by linking

data sources from CBP automated systems and other government agencies, through ACE, as a single source for border decision-makers.

# Performance Goals and Results

<b>Performance Measure</b> —Total number of linked electronic sources from CBP and other government agencies for targeting information.					
Description:	The number of electronic sources to which CBP information technology systems are linked to share information for targeting purposes. The ability to accurately and efficiently identify a potential risk to border security in any conveyance entering the U.S. is improved by linking data sources from CBP automated systems and other government agencies, through ACE, as a single source for border decision makers.				
<b>Key Highlight</b>					
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	N/A	N/A	9	16	16
Explanation of FY 2007 Results:	<b>Target Met</b> —CBP successfully met the FY 2007 target for this measure to increase the number of electronic sources to which CBP information technology systems are linked to share information for targeting purposes. These linkages are to databases both within and outside of DHS. In FY 2007, the addition of the Secure Freight Initiative's (SFI) foreign port data sources have further enriched targeting information to DHS.				
<b>Data Source:</b> Targeting and Analysis Systems Program Office (TASPO).					

## Strategic Goal #4—Facilitating Legitimate Trade and Travel



Biometric information such as inkless fingerprints and digital photographs is captured on foreign travelers seeking entry into the United States.

To improve risk assessment, CBP uses state-of-the-art modeling technologies that aid in identifying high risk for commercial enforcement. CBP continues to deploy NII 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 help identify risks while preventing unnecessary delays in processing 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 pre-screening 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.

## Performance Goals and Results

<b>Performance Measure</b> —Advanced Passenger Information System (APIS) data sufficiency rate.					
Description:	The accurate transmittal of advance passenger information data for law enforcement queries, decision making and targeting capabilities to identify high risk passengers prior to arrival.				
<b>Key Highlight</b>					
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	98.0%	98.6%	78.9%	90.0%	97.3%
Explanation of FY 2007 Results:	<b>Target Met</b> —Carrier compliance rates exceeded FY 2007 target. CBP National APIS Account Managers worked closely with carriers to identify and address technical and operational issues that improved carrier APIS transmissions. National APIS Account Managers also worked closely with carriers to implement changes necessary for WHTI requirements. Additionally, CBP released a new reporting capability allowing carriers to query individual flights to identify non-compliant records, allowing carriers to more readily review non-compliant records and make changes to further improve performance.				
<b>Data Source:</b> Airline passenger and crew manifest data.					

<b>Performance Measure</b> —Percent of CBP workforce using ACE functionality to manage trade information.					
Description:	The number of Customs and Border Protection personnel using the Automated Commercial Environment (ACE), compared to the targeted adoption rate shows that internal personnel have easier and quicker access to more complete, accurate, and sophisticated information than in the past.				
<b>Key Highlight</b>					
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	N/A	8%	23%	30%	30%
Explanation of FY 2007 Results:	<b>Target Met</b> —Increasing the agency's ACE user base means advanced cargo information will be more widely available thus increasing the use of targeting information to pre-screen, target and identify potential terrorist, terrorist shipments or contraband. The estimate of the expected population of CBP users will be reevaluated regularly.				
<b>Data Source:</b> Automated Commercial Environment system-use metrics.					

# Performance Goals and Results

<b>Performance Measure</b> —Number of trade accounts with access to ACE functionality to manage trade information.					
Description:	The extent to which ACE is made available to and used by members of the trade community (importers, brokers, carriers, etc.) to process and manage trade-related information.				
<b>Key Highlight</b>					
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	N/A	1%*	3,737**	9,000	11,950
Explanation of FY 2007 Results:	<p><b>Target Met</b>—ACE and its secure data portal feature offers unprecedented information integration and communication between CBP, the trade community and other participating government agencies through a single, on-line access point. The growth in the number of ACE accounts is attributable to the successful deployment of ACE cargo processing capabilities at land border ports, as well as the introduction of Entry Summary Accounts and Revenue (ESAR) Release A1, which increases the range of trade entities using ACE.</p> <p>*Performance measure was previously reported as percent of trade accounts with access to ACE functionality to manage trade information.</p> <p>**FY2006 actual has been restated as a number.</p>				
<b>Data Source:</b> Cargo Systems Program Office.					

**Performance Objective**—Promote industry and foreign government partnership programs.

Through work with the WCO and the G-8, 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 continue to 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 POEs.

<b>Performance Measure</b> —Compliance rate for C-TPAT members with established C-TPAT security guidelines.					
Description:	A summary of the overall compliance rate achieved for all validations performed during the fiscal year. After acceptance into the C-TPAT program, all C-TPAT members must undergo a periodic validation to verify compliance with industry-specific CBP security standards and required security practices.				
<b>Key Highlight</b>					
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	N/A	97%	98%	95%	98%
Explanation of FY 2007 Results:	<b>Target Met</b> —In FY 2007, CBP has continued to increase the number of validations performed on C-TPAT members. A validation is a very thorough review by CBP that includes visits to all manufacturing and warehouse facilities by C-TPAT Specialists to verify that a C-TPAT member is in fact implementing the supply-chain security safeguards agreed to and required by C-TPAT. Over seventy percent of all C-TPAT members have been validated by CBP, with a total of 6,003 validations by the end of FY 2007. A high compliance rate indicates that a majority of C-TPAT members are committed to maintaining supply chain security standards. It indicates that they have the required level of supply chain security measures in place and are maintaining them on an on-going basis.				
<b>Data Source:</b> C-TPAT Validation Reports.					

## Strategic Goal #5—Protecting America and Its Citizens



**CBP agriculture officers inspect produce for dangerous exotic pests and diseases.**

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 United States. CBP continues to develop technology to enhance targeting of high-risk cargo and individuals attempting entry into the country.

**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 United States intentionally or by accident.

# Performance Goals and Results

<b>Performance Measure</b> —International air passengers in compliance with agriculture quarantine regulations (percent compliant).					
Description:	The degree of compliance with agriculture quarantine regulations and other mandatory agricultural product restrictions. CBP randomly samples international air passengers for compliance with all U.S. Department of Agriculture (USDA) laws, rules, and regulations using USDA guidance on sampling procedures.				
<b>Key Highlight</b>					
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	97.0%	95.8%	95.5%	97.0%	94.2%
Explanation of FY 2007 Results:	<b>Target Not Met</b> —The Air Compliance Rate with Agricultural Quarantine Regulations measures the rate of all violations of arriving travelers. The large majority of these violations are minor infractions. The increase in air travelers observed in FY 2007 may in part account for the slight increase in violations and resulting decrease in compliance, as more passengers unfamiliar with travel regulations and reporting requirements traveled in FY 2007.				
Recommended Action:	CBP is continuing to take additional actions to further educate and inform the traveling public of all regulatory and procedural requirements. This includes expanded explanations of travel requirements on the CBP.gov website, such as “Know Before You Go” and the Western Hemisphere Travel Initiative (WHITI) Requirements page. CBP is working collaboratively with the carriers and airport authorities to improve instruction, signage, and on-board preprocessing. CBP is also working with industry to improve the traveler’s experience through the Rice-Chertoff Initiative, which will facilitate entry of air travelers into the U.S., and include new approaches for improving traveler processing and educating incoming travelers on U.S. laws, rules, and regulations. These efforts will improve passenger compliance in future years.				
<b>Data Source:</b> USDA Work Accomplishment Data System (WADS) Agricultural Quarantine Inspection monitoring activities.					

**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.

CBP will continue to coordinate with other law enforcement partners to provide protection from airborne threats and to provide air and marine security for national efforts.

<b>Performance Measure</b> —Percent of air support launches accomplished to support border ground agents to secure the border.					
Description:	The percentage of all requests made for air support to which CBP A&M was able to respond. The capability to launch an aircraft when a request is made for aerial support is a primary and important measure for CBP A&M. IN FY 2006, all air assets of CBP were merged into CBP A&M creating the largest law enforcement air force in the world with enhanced mission support to CBP A&M's primary customer, the Office of Border Patrol.				
<b>Key Highlight</b>					
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	N/A	N/A	N/A	>95%	98%
Explanation of FY 2007 Results:	<b>Target Met</b> —Successes during FY 2007 for this measure can be attributed to CBP A&M's efforts to standardize and thereby gain more efficiency in the area of aircraft maintenance. Also, several maintenance-intensive aircraft have been removed from the CBP fleet and additional aircraft have been added to inventory. Additional Air Interdiction Agents have been hired and trained to respond to requests for support.				
<b>Data Source:</b> Air and Marine Operations Reporting System (AMOR).					

## Strategic Goal #6—Modernizing and Managing



Information technology is crucial to CBP's operations.

To achieve the other five strategic goals, CBP must put forth a continuous effort to enhance and modernize its business processes information technology 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.

**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 round-the-clock customer assistance.

CBP continues to support its anti-terrorism mission and its widely dispersed field work-force 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.

# Performance Goals and Results

CBP intends to build and maintain a unified tactical communications capability that supports the needs of the agency and is coordinated within DHS.

<b>Performance Measure</b> —Percent (%) of time the Homeland Enforcement Communication System (HECS) is available to end users.					
Description:	A quantification, as a percentage, of the end-user experience in terms of HECS service availability. HECS is a CBP mission-critical law enforcement application system designed to identify individuals and businesses suspected of or involved in violation of federal law. HECS is also a communications system permitting message transmittal between DHS law enforcement offices and other national, state, and local law enforcement agencies. HECS provides access to the FBI's National Crime Information Center (NCIC) and the National Law Enforcement Telecommunication Systems (NLETS) with the capability of communicating directly with state and local enforcement agencies. NLETS provides direct access to state motor vehicle departments.				
<b>Key Highlight</b>					
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	N/A	96.2%	98%	97%	98.7%
Explanation of FY 2007 Results:	<b>Target Met</b> —CBP has put in place a robust set of procedures to ensure the end-user has access to the HECS when they need it. Having a high availability rate provides a better probability of apprehending those involved in illegal activities.				
<b>Data Source:</b> Topaz, a web-based application that enables users to track and analyze availability and system performance problems.					

# Management Assurances

## Overview

To comply with the provisions of the Federal Managers' Financial Integrity Act of 1982 (FMFIA); the DHS Financial Accountability Act of 2004; the Reports Consolidation Act of 2000; the Federal Financial Management Improvement Act of 1996 (FFMIA); the Federal Information Security Management Act of 2002 (FISMA); and the Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control," revised December 2004, the Commissioner of CBP must provide annual assurance statements to DHS regarding CBP's management and financial system controls, internal controls over financial reporting, and performance data reliability. 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.

## Federal Managers' Financial Integrity Act (FMFIA)

In accordance with FMFIA and OMB Circular A-123, CBP has evaluated its management controls and financial management systems for the fiscal year ending September 30, 2007. Through our annual self-assessment process and GAO and OIG reviews for fiscal year 2007, we are reporting three open material weaknesses from prior years and three new material weaknesses.

### Custodial Revenue and Drawback Controls

Drawback involves the reimbursement of duties paid by an importer on materials or merchandise imported into the United States and subsequently exported. In 1993, deficiencies were reported in the controls to prevent excessive drawback claims. The Automated Commercial System (ACS) has inherent limitations in detecting and preventing excessive drawback claims; therefore, CBP relies on a risk-based approach to review drawback claims. The implementation of the Automated Commercial Environment (ACE) Entry Summary Accounts and Revenue (ESAR) Drop 2.4 currently scheduled for September 2012 will resolve these issues. In addition, strengthening of drawback controls is dependent on legislation to simplify the drawback process and to revise document retention requirements for the trade. Finally, weaknesses have been noted and are being addressed in the monitoring of Foreign Trade Zones and Customs Bonded Warehouses, as well as the tracking of In-Bond cargo.

### Core Financial Systems

This material weakness was first reported in 1993 when it was noted that agency core financial systems were not integrated and did not provide certain financial information for managing operations. The implementation of Systems, Applications, and Products (SAP) addressed a number of the issues under this weakness. The remaining open issue relates to the integration of the ACE and SAP systems. The ACE ESAR Drop 2, targeted for implementation by July 2008, provides the remaining necessary interfaces for Accounts Receivable.

# Management Assurances

## Financial Systems Security

In the Fiscal Year 2005 DHS Financial Statements Audit Report, auditors expanded this DHS material weakness to include IT and financial system control weaknesses in addition to weaknesses in CBP security controls affecting headquarters and the National Data Center management and staff's system access to CBP applications and data (formerly Financial Systems Functionality and Technology). To address the systems access component of this weakness for the Windows NT platform, the DHS Active Directory infrastructure is required. For the Novell network and Sun servers, Novell Netware 6.5 and Sun Solaris Version 10, respectively, will be required. The migration to these products is to be completed by March 2008.

## Information Technology General and Application Controls

The DHS OIG notes that there continues to be information technology general and application control weaknesses at CBP. These weaknesses were identified in a set of 36 Notices of Finding and Recommendation (NFRs) in the information technology area resulting from the Fiscal Year 2007 Financial Statements Audit. Collectively, these weaknesses limit CBP's ability to ensure that critical financial and operational data are maintained in such a manner to ensure confidentiality, integrity, and availability. CBP has completed corrective actions for 11 of the 36 NFRs. All corrective actions for the identified NFRs are expected to be completed by September 30, 2008.

## Laptop Computer Security

During fiscal year 2006, the DHS OIG noted weaknesses related to CBP's inventory control, inventory review, and training of local property officers regarding laptop computer security. In addition, a security issue related to controls ensuring that laptop computers are cleared and sanitized prior to reissue or disposal was identified. New controls and enhanced training were implemented in fiscal year 2007. Although significant progress has been made, CBP will continue to monitor control results during fiscal year 2008 to ensure that these weaknesses have been resolved.

## Secure Border Initiative Program Executive Office—Implementation of Management Controls

The Secure Border Initiative Program Executive Office (SBI PEO) was established in fiscal year 2007. SBI PEO is currently implementing management controls and is not in a position to state with reasonable assurance that adequate controls are in place. CBP anticipates that controls will be in place to provide full assurances for fiscal year 2008.

## DHS Financial Accountability Act

The DHS Financial Accountability Act requires an assertion of internal controls over financial reporting. For fiscal year 2007, the scope of CBP's assessment of internal controls over financial reporting included

performing tests of design and tests of operating effectiveness over the following financial management processes:

- Fund Balance with Treasury,
- Financial Reporting,
- Entity-Level Controls,
- National Response Plan Financial Management Annex, and
- Information Systems Security.

CBP's assessment of internal control over financial reporting also included performing tests of design over the following financial management processes:

- Payment Management and
- Budgetary Resources.

Based on the scope of this assessment, CBP's Internal Control Assurance Statement provides reasonable assurance that internal controls over financial reporting were designed and operating effectively and no material weaknesses were found.

## Reports Consolidation Act

The Reports Consolidation Act requires an assessment of the completeness and reliability of the performance data used in an agency's annual PAR. Performance data used in this CBP Fiscal Year 2007 PAR are complete and reliable.

## Federal Financial Management Improvement Act (FFMIA)

The Federal Financial Management Improvement Act (FFMIA) instructs agencies to maintain an integrated financial management system that complies with Federal system requirements, Federal Accounting Standards 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 because of the deficiencies previously discussed.

## Federal Information Security Management Act (FISMA)

The Federal Information Security Management Act (FISMA) requires agencies to conduct an annual self-assessment review of their IT security programs and to develop and implement corrective actions for identified security weaknesses and vulnerabilities. CBP has completed a comprehensive self-assessment for fiscal year 2007 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.

# Systems and Controls

## Overview

**Data Integrity:** CBP is dedicated to providing clear, concise, relevant, and reliable data for managerial decision making and program management. We 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 reviews, annual self-inspections, audit trails, restricted access to sensitive data, and separation of duties, 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 byproduct of day-to-day operations. All levels of management routinely monitor the data systems and controls. CBP management has reviewed the performance measurement data for fiscal year 2007 and has determined, with reasonable assurance, that the data are complete, accurate, and reliable.

**Audit of the Fiscal Year 2007 CBP Consolidated Financial Statements:** As directed by DHS to assist the Department in complying with the Chief Financial Officer's Act of 1990, DHS's independent auditors, KPMG LLP, audited CBP's consolidated financial statements (Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and Consolidated Statement of Custodial Activity), hereinafter referred to as the "financial statements." The objective of the audit is to determine whether the financial statements fairly present the financial position of CBP. Audit reviews evaluate assets, liabilities, net position, net costs of major CBP programs, availability of budgetary resources, finance activity, budgetary spending, and revenue from collections and refunds. An audit consists of examining, through various sampling methods, evidence supporting the amounts and disclosures in the financial statements. The Independent Auditor's Report can be found on page 137.

## 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 FMFIA and OMB Circular A-123, revised. 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;
- Ensuring the security of funds, property, and other agency resources; and
- Complying with Federal laws and regulations.

For the current reporting cycle, the 19 offices of CBP completed more than 16,000 self-inspection worksheets. These worksheets require participants to answer questions resulting from testing about program administration and operation.

Results of the assessments are entered into the Self-Inspection Reporting System (SIRS). In addition, SIRS requires the completion of an audit trail section that documents what information was reviewed prior to the worksheets being completed, as well as a separate addendum that gives a detailed description of the cause and corrective action for any deficiencies. Managers are responsible for implementing corrective action plans to resolve identified deficiencies.

Every year, after the end of the SIP reporting cycle, the Management Inspection Division (MID) prepares a summary analysis report that identifies significant issues to help CBP management determine which administrative or operational areas require attention. Issues identified through this program may become the focus of MID internal inspection and review activities.

Analysis of the self-inspection data allows executive managers and national program managers to gauge the level of compliance with critical program management controls, identify programmatic issues that require national attention, and address issues before they cause administrative burden or otherwise have a negative impact on the mission of CBP.

# Financial Management

## Overview

CBP strives to be a leader in financial management by providing high-quality, cost-efficient services through customer involvement and modern, integrated financial systems. Its 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 it accurately identify amounts owed to 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.

For fiscal year 2007, SAP financial software continues to be used by CBP. 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 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 (PMA)

In 2001, the PMA was implemented as a management reform initiative established to identify deficiencies and improve performance within the Federal Government. For fiscal year 2007, the PMA focused on six key management initiatives across the Federal Government: (1) Strategic Management of Human Capital, (2) Competitive Sourcing, (3) Improved Financial Performance, (4) Expanded Electronic Government, (5) Budget and Performance Integration, and (6) Asset Management (Real Property). Federal Executive agencies are tracked, via a "scorecard," on how well the departments and major agencies are executing the six government-wide management initiatives.

In ongoing compliance and support of the PMA, CBP continues to efficiently and economically develop, implement, and track activities that improve its accomplishments and scorecards in the six areas of management weakness.

The following highlights CBP's accomplishments during fiscal year 2007 in the key areas.

### Human Capital

Strategic human capital management refers to the methods an agency uses to employ, deploy, develop, and evaluate its workforce. These methods are measured against six standards of success that serve as a common language on which agencies can assess their progress on the strategic management of human capital. CBP continuously evaluates its human resources programs to ensure that the following standards are met:

- Align human capital strategies with mission goals;
- Plan and deploy the workforce to create a citizen-centered and mission-focused organization;

- Ensure continuity of effective leadership;
- Develop a results-oriented performance culture;
- Close mission-critical competency gaps; and
- Develop an accountability system to ensure that human capital management is merit-based, effective, efficient, and supports mission accomplishment.

In fiscal year 2007, HRM partnered with CBP organizations to reinforce our Nation's borders by recruiting and hiring an additional 2,500 Border Patrol agents, 446 Border Patrol operations staff, and 218 support staff. To accomplish this monumental task, many recruiting events were implemented. These included visits to military installations to take advantage of the experience of our Nation's veterans, a sponsorship agreement with National Association for Stock Car Auto Racing—Busch Series Racing to promote public awareness of the agency's mission, and the creation of 19 "one-stop" recruiting and hiring centers to screen, test, and provide tentative selection offers to qualified candidates. HRM was also tasked with recruiting and hiring an additional 646 CBP officers and 316 CBP agricultural specialists.

In addition to supporting the mission to man our borders, HRM worked with other CBP program offices to modernize its law enforcement programs to meet the changing needs of the agency. Members of the staff collaborated with representatives of OBP to develop a career-path OBP position, thus making OBP more competitive with other Federal organizations in recruiting and retaining career law enforcement officers. In addition, a number of compensation options, including proposing a new retirement system that will provide full law enforcement officer coverage to CBP officers, are being developed.

## Competitive Sourcing

The goal of competitive sourcing is to provide a more effective, efficient way to foster a more results-oriented focus within Government organizations. Requirements for the Competitive Sourcing Initiative are outlined in and governed by statute and policy, including the Federal Activities Inventory Reform (FAIR) Act, OMB Circular A-76, OMB directives to the President's Management Council, and DHS Management Directive 0476.

During fiscal year 2007, CBP has done the following:

- Initiated two Feasibility Review Studies, affecting approximately 317 full-time equivalent positions, to conduct an organizational assessment for business improvement opportunities. The scope of the reviews was tailored to best suit the business needs of the affected organization, namely OBP and OIT. The competitive sourcing staff structured the Feasibility Review Studies as a partnership with the organizations undergoing the review. Senior-level officials within the reviewed organizations helped define what business improvement issues they face and would like to include within the context of the study. The results of the Feasibility Review Study will be actionable recommendations for business improvement. The appropriateness of competitive sourcing will be among the questions answered by the team. Therefore, the Feasibility Review Studies will incorporate each of the steps of the competitive sourcing process.
- Initiated preliminary planning for a streamlined competition affecting approximately 17 Full Time Equivalent (FTE).
- Conducted post competition accountability efforts, as required by OMB Circular A-76.

# Financial Management

- Reviewed all positions and categorized the functions of the positions as commercial or inherently governmental, as required annually by the FAIR Act. This inventory process further requires agencies to assign a function code to the position and identify whether the function performed is suitable for competition with the private sector.
- Initiated the update of long-range plans directed at achieving “green” status on the PMA scorecard, specifically for the Competitive Sourcing Initiative, as required by OMB.

## Financial Performance

The PMA initiative for Improved Financial Performance directs agencies to possess more timely and reliable financial information, improve the integrity of their financial activities, and have sound and dependable financial systems. CBP has fully supported this PMA initiative with its 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 controls over financial reporting and obtaining an unqualified audit opinion on the DHS consolidated financial statements. In support of this strategy, CBP has done the following:

- Received an unqualified audit opinion in Fiscal Year 2006 and 2007 on its full set of Financial Statements.
- Prepared and initiated corrective action plans to resolve auditor-identified and Integrity Act material weaknesses in internal controls. This includes developing annual risk management plans and risk mitigation plans that include milestones to proactively monitor and resolve identified issues of weakness in internal controls and processes that may affect resources.
- Maintained accountability for financial and performance information during operational evaluation and decision making through quarterly reviews. Management of financial and performance data in FYHSP allows senior management to complete program evaluations and make funding decisions.

## E-Gov

CBP continues to focus IT spending on modernization initiatives in many areas, such as expanded cargo processing for the ACE program, expanded electronic manifest certification, and implementation of Foreign Trade Zone automated admission and cargo control capabilities. CBP is promoting the use of Earned Value Management by incorporating its use and capabilities into the OIT Project Management Education and Certification Program for all project managers for mandatory use in project planning and management.

In 2007, CBP successfully certified and accredited major IT systems and projects and met its goal of full compliance for the fiscal year. CBP aligned major IT systems with the Federal Enterprise Architecture’s Lines of Business to eliminate duplicate processes and improve system efficiency and effectiveness.

## Budget and Performance Integration

The Budget and Performance Integration Initiative builds on the GPRA and the Homeland Security Act of 2002, which directs DHS to identify program goals and performance measures and link them to the budget process. DHS created FYHSP to communicate to Congress its resource plans, performance, and milestones for 5 years for programs that support DHS strategic goals and objectives.

In support of FYHSP, CBP regularly monitors external program evaluations, develops and tracks meaningful performance measures, improves out-year planning with program milestones, leads in the development of the CBP strategic plan, coordinates risk assessment information for program resource requests, coordinates program implementation and resource plans, and assists projects with developing project schedules and reporting on project status. Information on these activities is shared with senior management to ensure that they make informed resource allocation decisions.

## Asset Management (Real Property)

The goal of the Real Property initiative under the PMA is to promote the efficient and economical use of Federal real property resources in accordance with their value as national assets and in the best interests of the Nation.

The Office of Finance, Office of Asset Management of CBP provides real property assets in support of the agency's overall mission with a range of facilities services, including new construction, leasing, repairs and alterations, operations and maintenance, and technology insertion to meet requirements for the following types of assets:

- Land, air, and sea POEs;
- Border Patrol sector headquarters, stations, checkpoints, and remote operating bases;
- Tactical infrastructure on the border, including barriers, fencing, lighting, patrol roads, bridges, drainage structures, and control of brush and other obstructions;
- Air and Marine operations facilities;
- Detention and removal facilities;
- Laboratories and other special use space; and
- Administrative space.

In support of the PMA during fiscal year 2007, CBP has done the following:

### 1. Implemented the CBP and DHS Asset Management Plan (AMP) 3-year Timeline Initiatives.

CBP significantly contributes to the DHS AMP 3-year timeline initiatives to demonstrate measurable progress toward the Component and DHS Headquarters milestone completions. CBP is an active participant and contributor on four Task Force initiatives: Utilization, Mission Dependency, Decision-Making Process, and Operations Expense. CBP is also a member of the Facilities Condition Index Integrated Product Team (IPT), led by the USCG.

CBP remains active with the DHS Real Property Management Council (RPMC), having hosted the DHS-PMA/Federal Real Property Program (FRPP) Training for several DHS components at its Indianapolis facility.

### 2. Demonstrated Asset Management Plan Implementation.

CBP has demonstrated measurable results toward milestone completion by submitting a CBP real property asset management plan, conducting a comprehensive real property inventory of owned property, and leading the reconfiguration of CBP's enterprise system to accommodate FRPP data element management.

CBP's Energy Management group has established a strategic plan and approach to identify and review energy rates, and to define opportunities to achieve cost savings and better rates.

CBP is also collecting and documenting lease expirations to forecast rent projections for more accurate funding appropriations.

CBP has improved its new construction program to address program requirements that serve a Federal need that cannot be readily met with existing Federal assets or assets available in the private sector. The prioritization of these projects is done in coordination with the customer in the program area with the requirement. The process includes detailed methodology for identification of project need using a long-range strategic resource assessment. Projects are prioritized using strategic mission objectives, facilitated by the use of forecasting models, automated design standards, project cost estimation, project scoring, and project budgeting modules in an electronic database format. CBP also uses Mission Dependency, Operating Expense, Utilization, and Condition Index Data.

**3. Demonstrated that CBP real property management is consistent with the AMP and DHS performance measures.**

CBP conducted a comprehensive land and POE facilities inventory in fiscal year 2006 and has commenced comprehensive facilities conditions assessments beginning in July 2007. CBP provided estimated replacement costs based on acquisition costs and factors.

CBP is using the four performance metrics (Operating Expense, Utilization, Mission Dependency, and Condition Index) to make sound Capitol Investment Planning decisions, including land and POEs and OBP facilities. When funding is appropriated, the Facility Divisions prepare specific project requirements, and feasibility and environmental plans, for the project execution procurement strategy for design and construction.

## Improper Payments Information Act of 2002 (IPIA)

CBP Improper Payment Information Act (IPIA) efforts included the completion of a risk assessment of all CBP programs and the identification of two custodial programs that were determined to be susceptible to significant erroneous payments. The two programs, Custodial Refund and Drawback, and Custodial Continued Dumping and Subsidy Offset Act and Payments to Wool Manufacturers, both relate to duty, tax and fee trade-related activity.

CBP performed sample payment testing on these programs which supported the conclusion that the programs were susceptible to erroneous payments. Testing yielded an estimated improper payment amount of \$18.4 million of \$1.6 billion, or 1.150 percent, disbursed during fiscal year 2006.

Additionally, CBP performed sample payment testing on disbursements related to the Secure Border Initiative (SBI). SBI is a new activity receiving significant appropriated funding, and public and congressional interest. The testing was performed on a sample of payments made during October 2006 through March 2007 and yielded positive results. An estimated improper payment amount was identified of \$2,000 of \$155 million disbursed, or 0.001 percent.

## Recovery Auditing

CBP was granted relief from the Department of Homeland Security (DHS) Office of Chief Financial Officer from performing recovery audit work in accordance with Office of Management and Budget (OMB) Memorandum M-03-07. DHS is coordinating the relief request with OMB. CBP made the request after recovery audit work conducted for fiscal years 2003 through 2005 produced negligible recovery amounts. The amount of effort expended by CBP and contractor personnel as compared to recoveries identified and subsequently collected clearly demonstrated that recovery auditing for CBP and contractor personnel is not cost effective.

CBP did continue efforts to validate and collect amounts identified by the contractor from prior year efforts. The prior year efforts included both a review of actual disbursements made during fiscal years 2003 and 2004, and a survey of all vendors to identify any amounts owed to CBP. CBP continues to work with the vendors to recover the outstanding amounts. The recovery audit results are reported below:

Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported CY	Amounts Identified for Recovery CY	Amounts Recovered CY	Amounts Identified for Recovery PYs	Amounts Recovered PY	Cumulative Amounts Identified for Recovery (CY + PYs)	Cumulative Amounts Recovered (CY + PYs)
N/A – Relief Granted	N/A – Relief Granted	N/A – Relief Granted	\$97,294	\$179,476	\$26,830	\$179,476	\$124,124

In addition, CBP identified amounts for recovery during the Improper Payment Information Act (IPIA) review of FY 2006 Custodial Program disbursements and Secure Border Initiative (SBI) Program disbursements. The IPIA results are as follows:

	Amounts Identified as Improper Payments	Amounts Identified for Recovery	Amounts Recovered
Custodial Program	\$107,427	\$34,466	\$2,458
SBI Program	\$ 513	\$ 0	\$ 0
Totals	\$107,940	\$34,466	\$2,458

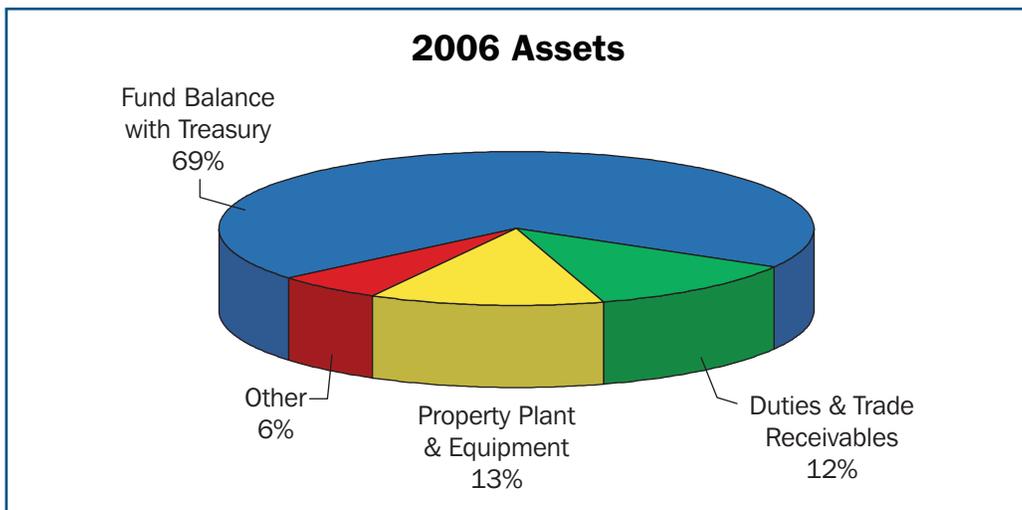
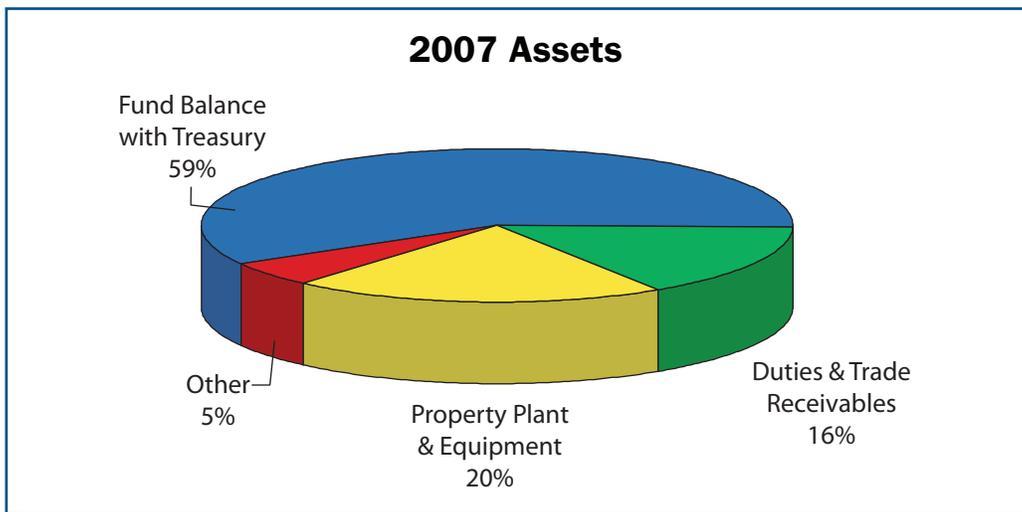
Recoveries for Custodial Program payments are restricted by regulations governing collections of duty, taxes and fees associated with trade-related activity. CBP will be able to recover \$34,466 of the total IPIA Custodial Program improper payment amount of \$107,427. The SBI Program improper payment amount of \$513 will not be recovered as CBP does not consider it to be cost-effective to collect the individual amounts.

## Overview of the Financial Statements

The financial statements and footnotes appear in the “Financial Section” of this report on pages 77 through 136. The financial statements have been audited by our independent auditor, KPMG LLP, and have been found to have no material misstatements as evidenced by the audit report.

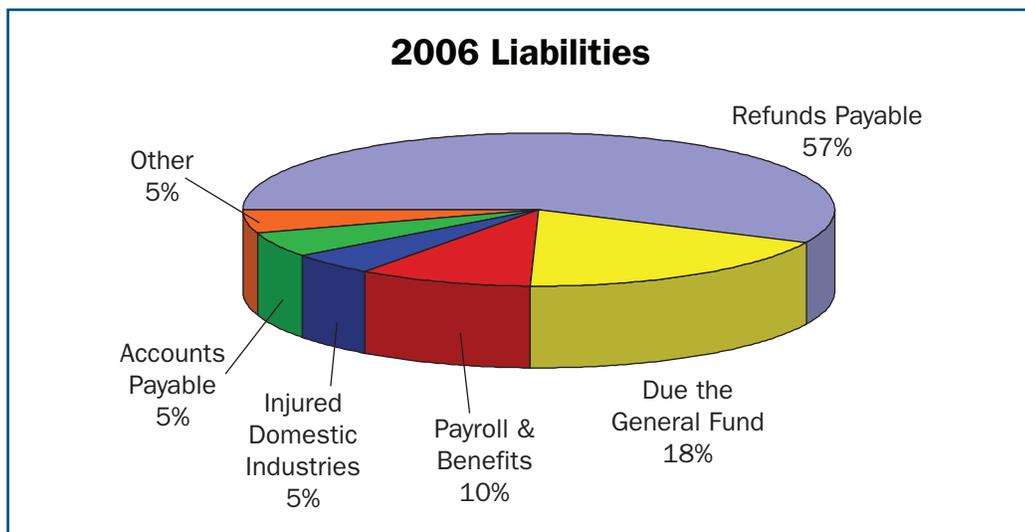
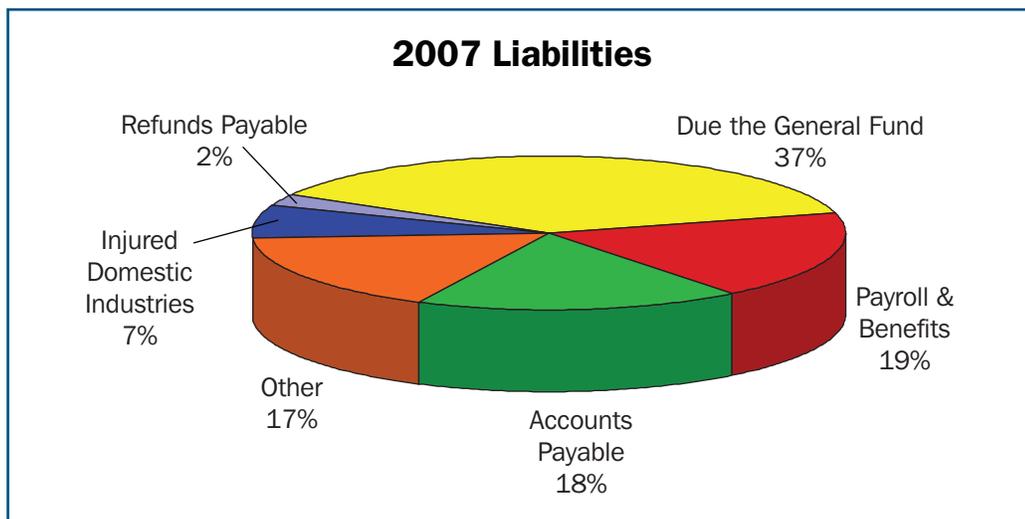
## Consolidated Balance Sheet

The Consolidated Balance Sheet presents the property owned by CBP (assets), amounts owed by CBP (liabilities), and the amounts of the difference (net position). As of September 30, 2007, total assets were \$12.3 billion, an 18 percent decrease from fiscal year 2006, which was primarily due to a decrease in the Fund Balance with Treasury resulting from disbursements of Canadian softwood lumber refunds. Although Property, Plant and Equipment increased 31 percent compared to September 30, 2006, this was offset by the larger decrease in Fund Balance with Treasury. Construction of tactical infrastructure projects was the primary reason for the increase in Property, Plant and Equipment.



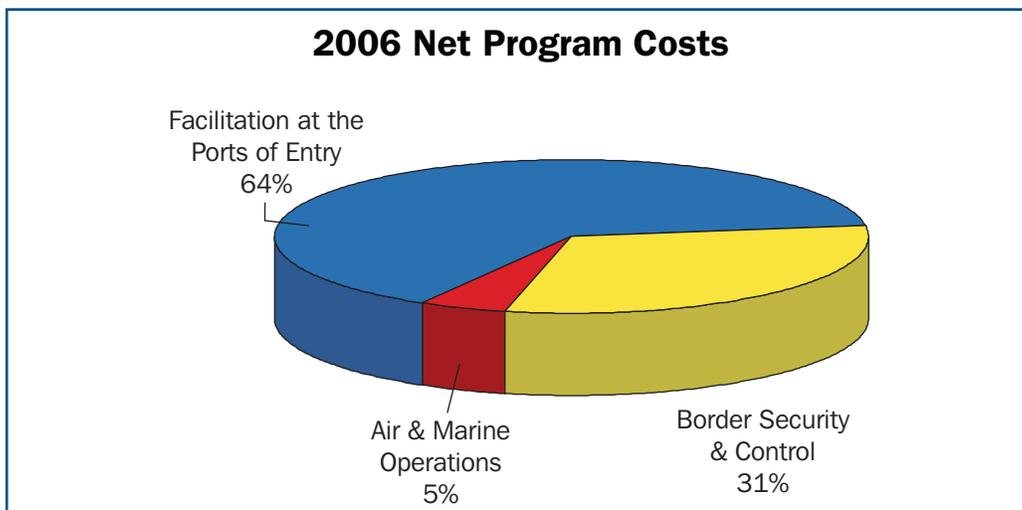
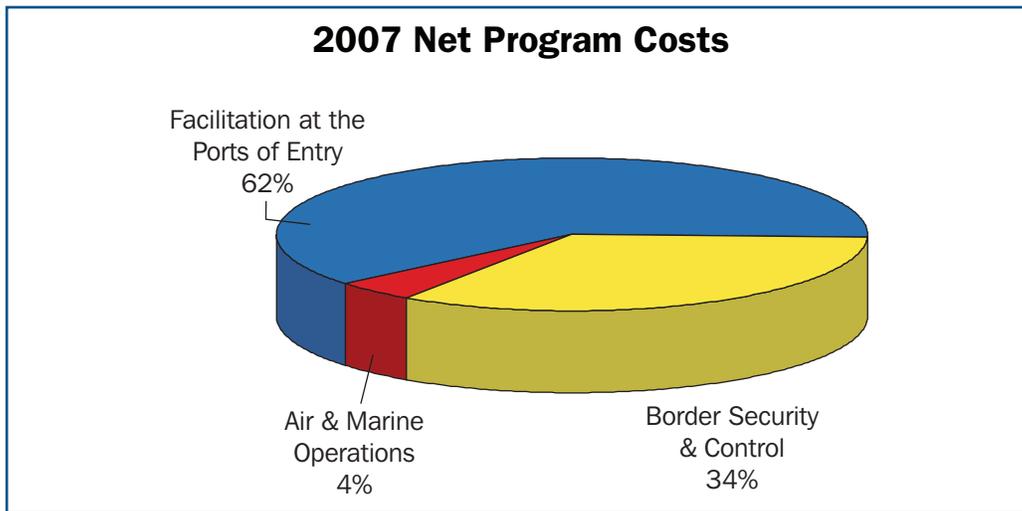
As of September 30, 2007, total liabilities were \$5.5 billion, a decrease of 44 percent over fiscal year 2006, which was primarily due to a decrease in Refunds Payable resulting from disbursements of Canadian softwood lumber refunds. Although Due to the General Fund increased 15 percent compared to September 30, 2006, this was offset by the decrease in Refunds Payable. The increase in Due to the General Fund was a result of increased non-entity collections and accrued receivables.

The charts on these two pages present a comparison of the major categories of assets and liabilities as a percentage of the totals for fiscal year 2007 and fiscal year 2006.



## Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost presents the net cost of the major CBP programs as they relate to the goals of the 2005–2010 Strategic Plan. For the year ended September 30, 2007, the gross cost less offsetting revenue for each program equals the net cost of operations of \$8 billion, which represents a 15 percent increase compared to the year ended September 30, 2006. This increase was primarily due to spending for border security and information technology.



## **Consolidated Statement of Changes in Net Position**

The Consolidated Statement of Changes in Net Position represents those accounting transactions that caused the net position of the balance sheet to change from the beginning to the end of the reporting period. CBP's net cost of operations serves to reduce net position. Appropriations used totaled \$5.6 billion, representing 66 percent of CBP's total financing sources. CBP collected and retained \$2.4 billion of non-exchange revenue, which comprised 28 percent of total financing sources.

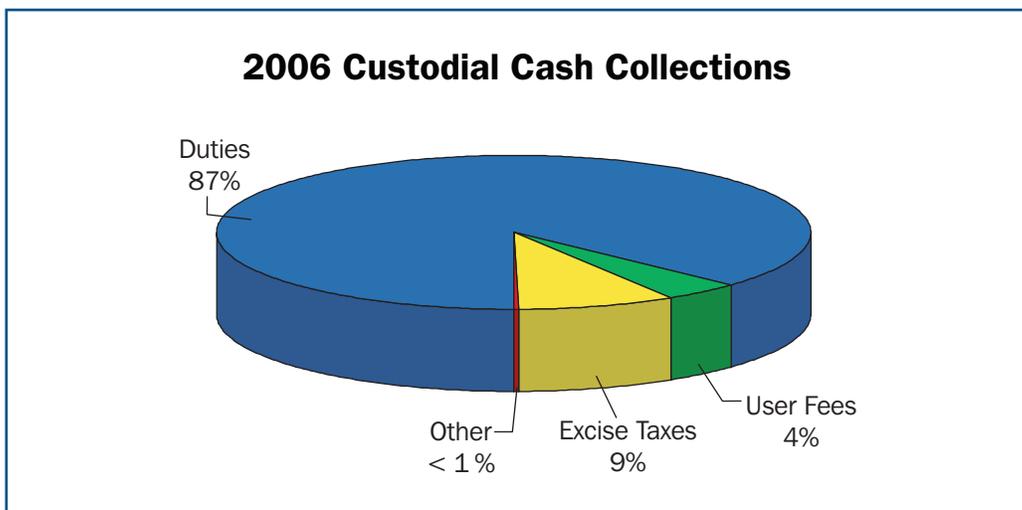
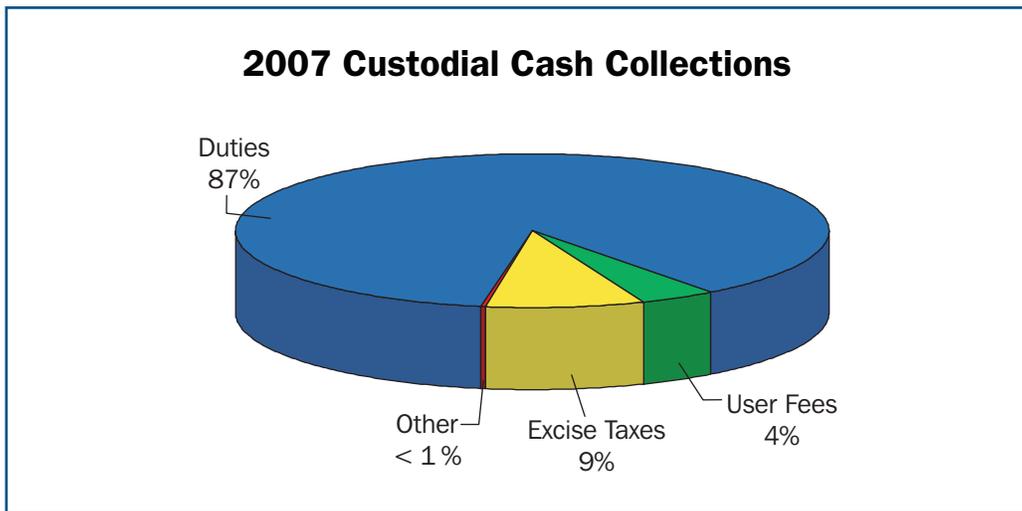
For the year ended September 30, 2007 total cumulative result of operations and unexpended appropriations were \$2.6 billion and \$4.1 billion, an increase of 23 and 39 percent respectively over the September 30, 2006 cumulative results of operations and unexpended appropriations. These increases were primarily due to appropriations received and other financing sources during fiscal year 2007.

## **Combined Statement of Budgetary Resources**

The Combined Statement of Budgetary Resources illustrates how budgetary resources were made available, as well as their status at the end of fiscal year 2007. CBP had \$15.4 billion in budgetary resources, which represents an increase of 22 percent compared to the year ended September 30, 2006. The increase was primarily due to appropriations received for information technology and construction of tactical infrastructure projects. Also, for the year ended September 30, 2007, CBP incurred obligations of \$12.5 billion and recorded \$11.4 billion in gross outlays, an increase of 21 and 20 percent respectively over the September 30, 2006 incurred obligations and gross outlays.

## Consolidated Statement of Custodial Activity

The Consolidated Statement of Custodial Activity presents non-entity (financial activity conducted by CBP on behalf of others) revenue and refunds using a modified cash basis. This method reports revenue from cash collections separately from receivable accruals, and cash disbursements are reported separately from payable accruals. The custodial revenue, using the modified cash basis, for fiscal year 2007 was \$36.4 billion, a 58 percent increase compared to fiscal year 2006. This increase was primarily due to the recognition of collections in fiscal year 2007 for Canadian softwood lumber imports.



## Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of the operations of CBP, pursuant to the requirements of 31 U.S.C. 3515(b). While the financial statements have been prepared from the books and records of CBP in accordance with Generally Accepted Accounting Principles for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The financial statements should be read with the realization that they are a component of the U.S. Government, 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.

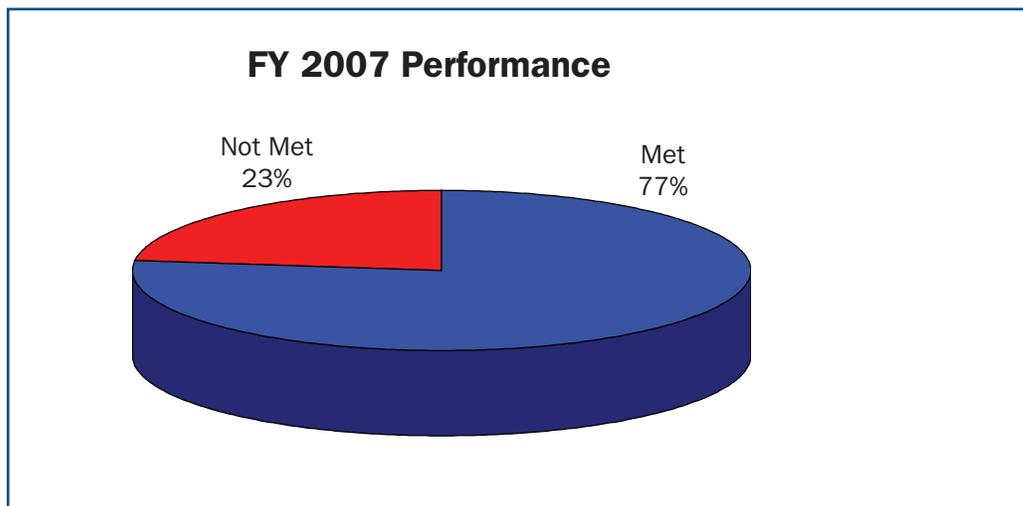
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# Performance Section

# Performance Summary

The chart below highlights CBP's success in achieving fiscal year 2007 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.



Security, threat, and risk analyses often necessitate changes in the agency's focus. CBP performance measures continue to evolve to better reflect operational functions and alignment with critical missions.

For fiscal year 2007, CBP has 26 reportable performance measures that support the Strategic Plan. Of the 26 performance measures, 20 were met and 6 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 "Systems and Controls" section of the "Management's Discussion and Analysis" (page 50) 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 demonstrate accountability of program results.

## Individual Performance Measure Results

This section describes CBP's fiscal year 2007 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 34.

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

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

<b>Performance Measure</b> —Number of foreign cargo examinations resolved in cooperation with the Container Security Initiative (CSI).	
<b>Key Highlight</b>	<b>Target Not Met</b> —See page 36 for results and detailed discussion.

**Performance Objective**—Strengthen the CBP defense-in-depth approach through the use of state-of-the-art detection and sensor technology, resources, and training.

<b>Performance Measure</b> —Percent of active commissioned canine teams with 100 percent detection rate results in testing of the Canine Enforcement Team.	
<b>Key Highlight</b>	<b>Target Met</b> —See page 37 for results and detailed discussion.

**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.

<b>Performance Measure</b> —Percent of worldwide U.S. destined containers processed through Container Security Initiative (CSI) ports.	
<b>Key Highlight</b>	<b>Target Met</b> —See page 38 for results and detailed discussion.

## Strategic Goal #2—Preventing Terrorism Between 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.

<b>Performance Measure</b> —Border miles under effective control (including certain coastal sectors).	
<b>Key Highlight</b>	<b>Target Met</b> —See page 39 for results and detailed discussion.

# Performance Summary

<b>Performance Measure</b> —Percent of apprehensions at Border Patrol checkpoints.					
Description:	An examination of one checkpoint activity, apprehensions, compared to the number of Border Patrol apprehensions nationwide. Checkpoints are temporary and permanent facilities used by the Border Patrol to monitor traffic on routes of egress from border areas and are an integral part of the Border Patrol's defense-in-depth strategy. Activities that occur at checkpoints serve as a measure not only of checkpoint operational effectiveness, but as a barometer of the effectiveness of Border Patrol's overall national border enforcement strategy to deny successful illegal entries into the U.S. This comparison measures checkpoint effectiveness in terms of apprehensions and provides insights into the overall effectiveness of the Border Patrol's national strategy.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	N/A	N/A	5.9%	5%–10%	5%
Explanation of FY 2007 Results:	<b>Target Met</b> —The checkpoints are a component of the successful defense-in-depth strategy which deny major routes of egress to smugglers intent on delivering people and illegal contraband into the U.S. While nationwide checkpoint apprehensions remained consistent overall, apprehensions in Tucson decreased due to the continued enhanced level of operations in Arizona with Operation Jump Start and the Arizona Border Control Initiative.				
<b>Data Source:</b> Summary records from Border Patrol's Checkpoint Activity Report (CAR) and data maintained in two databases: ENFORCE and BPETS.					

<b>Performance Measure</b> —Total number of cumulative miles of permanent tactical infrastructure constructed.					
Description:	The total number of permanent cumulative miles of tactical infrastructure constructed. Tactical infrastructure consists of barriers built to deter or delay illegal entries into the U.S. Tactical infrastructure includes pedestrian fencing, all-weather roads, vehicle fence and permanent lighting installed in the border areas to support border enforcement activities.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	N/A	N/A	N/A	310	400.2 miles
Explanation of FY 2007 Results:	<b>Target Met</b> —In FY 2007, SBI programs completed construction of nearly 155 miles of additional permanent tactical infrastructure. This includes an additional 72.3 miles of primary fence (for a total of 154.67), another 20 miles of all-weather roads (for a total of 74.3) were constructed, an additional 52.5 miles of vehicle fence were added (for a total of 109.5), and 10.1 miles of lighting (for a total of 61.7) were installed on the border to support border enforcement activities. Providing for over 400 miles of tactical infrastructure.				
<b>Data Source:</b> Permanent tactical infrastructure implementation plans and installation progress data in ORBBP, SAP, ENFORCE, and BPETS.					

# Performance Summary

<b>Performance Measure</b> —Percent of narcotic seizures at Border Patrol checkpoints compared to Border Patrol seizures nationwide.					
Description:	The percentage of narcotic seizures at Border Patrol checkpoints compared to the percentage of narcotic seizures nationwide. The Border Patrol checkpoint operations are an integral part of the Border Patrol’s defense-in-depth strategy. As such, these activities serve as measures for both the checkpoint operational effectiveness and the value of the Border Patrol’s overall national border enforcement strategy to deny successful illegal entries into the U.S.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	N/A	N/A	N/A	35%–50%	34%
Explanation of FY 2007 Results:	<b>Target Not Met</b> —The number of narcotic seizure events at Border Patrol checkpoints was compared to the number of narcotic seizure events by Border Patrol nationwide to determine what percentage of events take place at Border Patrol checkpoints. This measure continues to show the effectiveness of Border Patrol checkpoint operations in detecting narcotic and illegal contraband as part of the defense-in-depth strategy and support the Border Patrol National Strategy to protect America and its citizens.				
Recommended Action:	The Border Patrol has lowered the target range for the percentage of narcotic seizure events at the Border Patrol checkpoints to more closely reflect an ambitious but realistic target for this measure.				
<b>Data Source:</b> The number of narcotic seizure events are obtained through the Checkpoint Activity Report. The number of nationwide narcotic seizure events are obtained through ENFORCE and BPETS.					

<b>Performance Measure</b> —Percent of traffic checkpoint cases referred for prosecution to the U.S. Attorney’s Office.					
Description:	The percentage of border related cases brought by the Border Patrol and originating from traffic checkpoint operations that are referred to one of the 92 U.S. Attorneys located throughout the U.S., Puerto Rico, and the Virgin Islands for prosecution compared to the total number of apprehensions at traffic checkpoints. This measure will depict the effectiveness of Border Patrol checkpoint operations in identifying and prosecuting dangerous criminals thus enhancing overall public safety. All apprehensions by OBP are considered arrests (administrative or criminal). The number of cases tracked in this measure represents criminal arrests only.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	N/A	N/A	N/A	3%–13%	13%
Explanation of FY 2007 Results:	<b>Target Met</b> —The criminal cases referred for prosecution support the strategic goals of preventing terrorism, achieving effective control of the border and reducing crime in border communities. The cases referred are broken down into four categories: alien smuggling, drugs/narcotics, fraudulent documents and other. Data are analyzed for compliance with established data protocols and accuracy and continue to show the effectiveness of the Border Patrol’s layered enforcement strategy.				
<b>Data Source:</b> Border Patrol’s Checkpoint Activity Report (CAR).					

# Performance Summary

<b>Performance Measure</b> —Percent of network availability					
Description:	The percentage of network availability to users. The CBP network provides the basis for linking all IT systems for communications and access to mission critical systems. High levels of system availability are needed to accomplish CBP's mission.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	N/A	N/A	99.9%	98%	99.4%
Explanation of FY 2007 Results:	<b>Target Met</b> —CBP's FY 2007 network availability exceeded posted targets due to an organizational effort to minimize unscheduled outages and reduce unscheduled downtime for our critical National Security mission.				
<b>Data Source:</b> Simple Network Management Protocol (SNMP) data source is directly retrieved from managed device every five minutes.					

**Performance Objective**—Expand specialized teams and rapid-response capabilities to enhance control of the borders, with expansion to problematic areas as identified through continuing threat assessments.

<b>Performance Measure</b> —Number of Border Patrol Agents trained in rescue and emergency medical procedures.					
Description:	The number of agents trained and certified in rescue and emergency medical procedures. One of the Border Patrol's Border Safety Initiative (BSI) objectives is to increase the number of agents trained and certified in rescue and emergency medical procedures at the field agent level to improve the Border Patrol's capabilities to prevent and respond to humanitarian emergencies to create a safer and more secure border region.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	N/A	N/A	N/A	510	796
Explanation of FY 2007 Results:	<b>Target Met</b> —OBP exceeded the FY 2007 target. This training for agents enhances the safety of our Nation's borders by providing life saving interventions in remote areas where response times are much longer. This training also certifies agents to provide standardized medical care in emergencies when they are the first to arrive on the scene. Exceeding the targets shows OBP's commitment to enhancing safety while performing their essential missions along the Nation's border.				
<b>Data Source:</b> Border Patrol Enforcement Tracking System (BPETS).					

## Strategic Goal #3—Unifying as One Border Agency

**Performance Objective**—Establish a unified primary inspection process for passenger processing at all ports of entry into the United States and fully integrate analysis and targeting units.

<b>Performance Measure</b> —Total number of linked electronic sources from CBP and other government agencies for targeting information.	
<b>Key Highlight</b>	<b>Target Met</b> —See page 40 for results and 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.

<b>Performance Measure</b> —Advanced passenger information (APIS) data sufficiency rate.	
<b>Key Highlight</b>	<b>Target Met</b> —See page 41 for results and detailed discussion.

<b>Performance Measure</b> —Percent of CBP workforce using ACE functionality to manage trade information.	
<b>Key Highlight</b>	<b>Target Met</b> —See page 41 for results and detailed discussion.

<b>Performance Measure</b> —Number of trade accounts with access to ACE functionality to manage trade information.	
<b>Key Highlight</b>	<b>Target Met</b> —See page 42 for results and detailed discussion.

**Performance Objective**—Utilize state-of-the-art technologies and processes to leverage resources and to conduct examinations of all potential high-risk cargo, conveyances and passengers.

<b>Performance Measure</b> —Percent of truck and rail containers screened for contraband and concealed people.					
Description:	The percentage of truck and rail containers that were screened for contraband and concealed people using Non-Intrusive Inspection (NII) technology. This measure shows progress towards increasing security by measuring the percent of truck and rail containers that were screened for contraband and concealed people using NII technology. NII technology consists of X-ray imaging and electromagnetic imaging equipment that is very effective at inspecting trucks, containers, and packages for shapes, density, and hidden cargo. It is very effective at identifying weapons, narcotics, smuggled humans, and concealed cargo.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	26.6%	28.9%	32.8%	33%	40%
Explanation of FY 2007 Results:	<b>Target Met</b> —NII examinations are conducted to perform 100% examination of all targeted high-risk containers identified through Automated Targeting System (ATS) manifest reviews. The higher the % of cargo screened using NII, the greater the likelihood of detecting potentially hazardous materials and preventing them from entering the U.S. This technology is a very effective and more efficient alternative to 100 percent physical inspection of all targeted high-risk containers All major rail crossings now perform nearly 100% examinations of rail containers.				
<b>Data Source:</b> Operations Management Reports (OMR) Data Warehouse.					

# Performance Summary

<b>Performance Measure</b> —Percent of sea containers screened for contraband and concealed people.					
Description:	The percentage of sea containers that were screened for contraband and concealed people using Non-Intrusive Inspection (NII) technology. The measure shows progress towards increasing security by measuring the percent of sea containers arriving at seaports that were screened for contraband and concealed people using NII technology. NII technology consists of X-ray imaging and electromagnetic imaging equipment that is very effective at inspecting trucks, containers, and packages for shapes, density, and hidden cargo. It is very effective at identifying weapons, narcotics, smuggled humans, and concealed cargo.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	5.2%	5.6%	5.25%	5.5%	4.0%
Explanation of FY 2007 Results:	<b>Target Not Met</b> —NII examinations are conducted to perform 100% examination of all targeted high-risk containers identified through Automated Targeting System (ATS) manifest reviews. These are containers that are identified to have a higher risk profile and which may pose a threat to our security. The higher the % of cargo screened using NII, particularly high-risk cargo, the greater the likelihood of detecting potentially hazardous materials and preventing them from entering the U.S. ATS is a very effective and more efficient alternative to 100 percent physical inspection of all targeted high-risk containers. In April 2007, ATS targeting rules were refined, resulting in an overall reduction in the number of mandatory examinations required. This “mandatory” decrease was not compensated for by a corresponding increase in discretionary (CBP Officer selected exams, resulting in an overall decrease in the total number of NII exams completed.				
Recommended Action:	CBP will work to increase the number of discretionary examinations to more than offset the decrease in mandatory exams that resulted from the improvements in the ATS targeting rules. Discretionary exams are conducted based on CBP officer assessment and targeting.				
<b>Data Source:</b> Operations Management Reports (OMR) Data Warehouse.					

**Performance Objective**—Promote industry and foreign government partnership programs.

<b>Performance Measure</b> —Compliance rate for C-TPAT members with established C-TPAT security guidelines.	
<b>Key Highlight</b>	<b>Target Met</b> —See page 43 for results and detailed discussion.

# Performance Summary

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

<b>Performance Measure</b> —Air passengers compliant with laws, rules, and regulations (%).					
Description:	The compliance rate of international air passengers with all of the laws, rules, and regulations that CBP enforces at the Ports of Entry, with the exception of agriculture laws and regulations.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	99.2%	99.0%	98.7%	99.2%	98.7%
Explanation of FY 2007 Results:	<b>Target Not Met</b> —The Air Compliance Rate measures the rate of all violations of arriving travelers. The large majority of these violations are minor infractions. The increase in air travelers observed in FY 2007 may in part account for the slight increase in violations and resulting decrease in compliance, as more passengers unfamiliar with travel regulations and reporting requirements traveled in FY 2007.				
Recommended Action:	The air compliance rate primarily measures the rate of minor violations of arriving travelers. CBP is continuing to take additional actions to further educate and inform the traveling public of all regulatory and procedural requirements. This includes expanded explanations of travel requirements on the CBP.gov website, such as “Know Before You Go” and the Western Hemisphere Travel Initiative (WHITI) Requirements page. CBP is working collaboratively with the carriers and airport authorities to improve instruction, signage, and on-board preprocessing. CBP is also working with industry to improve the traveler’s experience through the Rice-Chertoff Initiative, which will facilitate entry of air travelers into the U.S., and include new approaches for improving traveler processing and educating incoming travelers on U.S. laws, rules, and regulations. These efforts will improve passenger compliance in future years.				
<b>Data Source:</b> Homeland Enforcement Communication System (HECS), Categories I and II violations.					

<b>Performance Measure</b> —Land border passengers compliant with laws, rules, and regulations (%).					
Description:	The compliance rate of land border vehicle passengers with all of the laws, rules, and regulations that CBP enforces at the Ports of Entry, with the exception of agriculture laws and regulations.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	99.9%	99.9%	99.9%	99.9%	99.9%
Explanation of FY 2007 Results:	<b>Target Met</b> —The FY 2006 vehicle passenger compliance rate, while maintained at the same rate over the last two years, is very high by historical standards, largely due to increased enforcement posture since September 11, 2001, and expanded efforts at educating the traveling public on travel requirements. CBP will continue its emphasis on targeting/enforcement and additional training for its employees and emphasize additional approaches to educating and informing the traveling public on U.S. laws and requirements.				
<b>Data Source:</b> Homeland Enforcement Communication System (HECS), Categories I and II violations.					

# Performance Summary

**Performance Objective**—Facilitate international trade and travel.

<b>Performance Measure</b> —Average CBP exam reduction ratio for C-TPAT member importers compared to non-C-TPAT importers.					
Description:	The exam reduction ratio of C-TPAT member importers compared to non C-TPAT importers. C-TPAT members to follow strict security procedures to secure the supply chain. This results in reduced exams and thereby helps facilitate the flow of trade. This performance measure indicates the impact of C-TPAT exam reduction benefits on C-TPAT importer exams.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	N/A	4.1 Times Less	3.4 Times Less	3.5 Times Less	3.5 Times Less
Explanation of FY 2007 Results:	<b>Target Met</b> —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. Examinations at arrival at the POEs, either through a manifest review or physical examination, are time consuming and costly to undergo. The reduction in such examinations for C-TPAT members when compared to non C-TPAT members is an excellent measure of a tangible benefit that translates to significant time-savings and reduced cost for importers. Importers have continued to work diligently to cooperate with CBP in this review process.				
<b>Data Source:</b> CBP Automated Commercial System (ACS) transaction data.					

## 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.

<b>Performance Measure</b> —International air passengers in compliance with agricultural quarantine regulations (percent compliant).	
<b>Key Highlight</b>	<b>Target Not Met</b> —See page 44 for results and detailed discussion.

# Performance Summary

<b>Performance Measure</b> —Border vehicle passengers in compliance with agricultural quarantine regulations (percent compliant).					
Description:	The degree of compliance with U.S. Department of Agriculture (USDA) agricultural quarantine regulations and other mandatory agricultural product restrictions. CBP randomly samples border vehicle passengers for compliance with all USDA laws, rules and regulations using USDA guidance on sampling procedures.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	96.0%	93.7%	92.9%	94.6%	95.7%
Explanation of FY 2007 Results:	<b>Target Met</b> —CBP has shown significant success in achieving increased compliance over the historical target rate of 95% previously maintained by USDA. CBP has been moving aggressively to fill Agricultural Specialist positions and made significant progress in FY 2007, filling over 300 positions. Improvements in staffing levels have resulted in improvements for FY 2007. High-risk land border environments are not yet fully staffed with trained CBP Agricultural Specialists and although CBP has achieved a big improvement in the rate of compliance for FY 2007, further improvements will be made as the remaining positions are filled.				
<b>Data Source:</b> USDA Work Accomplishment Data System (WADS) Agricultural Quarantine Inspection monitoring activities.					

**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.

<b>Performance Measure</b> —Percent of air support launches accomplished to support border ground agents to secure the border.	
<b>Key Highlight</b>	<b>Target Met</b> —See page 45 for results and detailed discussion.

<b>Performance Measure</b> —Percent of at-risk miles under strategic air surveillance (strategic air coverage).					
Description:	The percent of at-risk miles under strategic air surveillance evaluated according to up-to-the-minute information and intelligence. This measure describes the area of the U.S. border determined to be under the span of control of CBP A&M assets. CBP A&M uses a multi-level layer to aerial response and support to accomplish this goal: 1) strategic surveillance for the P-3 and UAS aircraft, 2) intelligence driven support for the rapid deployment of forces, and 3) strategic and tactical support to ground law enforcement such as the Office of Border Patrol and ICE.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	N/A	N/A	55%	60% of at-risk miles	60%
Explanation of FY 2007 Results:	<b>Target Met</b> —During FY 2007, the Grand Forks, North Dakota Air & Marine Branch was opened providing additional assets and resources along the Northern Border. Additional aircraft have been introduced into the fleet across all borders of the U.S., and additional Air Interdiction Agents have been hired which allows CBP A&M to extend its hours of operations to all borders.				
<b>Data Source:</b> SAP, CARMAC, APATS, CAMITS generated reports and analyst spreadsheets.					

# Performance Summary

<b>Performance Measure</b> —Numbers of airspace incursions along the southern border (extending the physical zone of security beyond the borders).					
Description:	The number of airspace incursions along the southern border. The measure monitors A&M efforts in reducing, with the intent of ultimately denying, the use of border air space for acts of terrorism or smuggling using intelligence and threat assessments. CBP A&M continues to gather and analyze intelligence on past and current threat patterns to forecast and disseminate information about potential and emerging threats. The targeted goals for this measure are to maintain this low level of border incursions at a minimum and reduce it if possible, until there are no border incursions.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Target	FY 2007 Results
Target/Actual Indicator:	N/A	N/A	13	10	32
Explanation of FY 2007 Results:	<b>Target Not Met</b> —The FY 2007 actual number of Targets of Interest (TOI) has increased primarily because of the revolving nature of smuggling. The increase in the numbers of Border Patrol ground forces in combination with the support of CBP A&M Air Interdiction Agents, has forced smugglers to change their focus from ground to airspace entrance into the U.S. In addition, on November 30, 2006, the Mexican government discontinued Operation HALCON which was an integral part of CBP’s defense-in-depth strategy. Operation HALCON was a joint U.S. and Mexican aviation training program designed to train Mexican pilots to fly and reduce U.S. border interdiction missions.				
<b>Data Source:</b> HECS, AMOR and validated real-time data.					

## Strategic Goal #6—Modernizing and Managing

**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 round-the-clock customer assistance.

<b>Performance Measure</b> —Percent of time the Homeland Enforcement Communication System (HECS) is available to end users.	
<b>Key Highlight</b>	<b>Target Met</b> —See page 46 for results and detailed discussion.



# Financial Section

# Message from the Chief Financial Officer



U.S. Customs and Border Protection (CBP) is going through dynamic change. The importance of our mission and the expectations to achieve the mission have increased along with CBP's responsibilities and funding. Few missions in the Federal Government are more important than ours, as the men and women of CBP work continuously to protect our nation from dangerous people and dangerous goods. The Commissioner's message has highlighted a few of the successes we realized in Fiscal Year 2007.

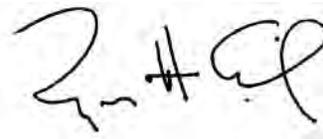
The unqualified opinion on our Fiscal Year 2007 financial statements is a positive reflection that CBP continues to demonstrate discipline and accountability in the execution of our fiscal stewardship responsibilities. Our financial environment is complex—we not only receive appropriations like most Federal agencies, but we also rely on many user fees and collect significant custodial revenue. Several factors contribute to our financial management success. In my first year as CBP's CFO, I have never seen a workforce more diligent and concerned about financial management and integrity. We have sound resource management practices, which we continuously assess and test, and change or reinforce as needed. And we have a modern enterprise resource planning system, SAP, now beginning its fourth year of operation. CBP performed an annual operational analysis of SAP to reflect the system's current operational status and identify opportunities for improvements. We received a passing grade from the Department of Homeland Security under the Capital Planning and Investment Control process.

As a mission support organization, the Office of Finance (OF) is part of the foundation of the administrative process that enables the men and women of CBP to accomplish our mission. OF is more than just finance—our diverse responsibilities range from finance and budget, to procurement and acquisition, to facilities and asset management. Like CBP, we are going through dynamic change. We launched two significant changes in Fiscal Year 2007 to evolve our support to CBP. The first change was the reorganization of the Asset Management Directorate, whose responsibilities had grown dramatically in size, complexity, and immediacy due to emphasis on border security programs. The result is a new Facilities and Engineering program, spun off from Asset Management. Asset Management will continue to be responsible for important programs such as vehicle fleet management, personal property, printing services and records management. The second change encompassed the creation of the Secure Border Initiative Acquisition Office. The Secure Border Initiative (SBI) is a massive, multi-dimensional effort that will enable us to gain better control of our borders. These changes represent our continuing dedication to CBP's mission and financial stewardship.

We are correcting issues identified by internal management evaluations in support of CBP's Management Assurances, as well as auditor-identified weaknesses in internal controls. I 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. CBP is committed to addressing all of our financial management challenges by continuing to implement corrective measures that improve our oversight and accountability.

In Fiscal Year 2008, CBP will continue to focus on the initiatives related to the President's Management Agenda, fulfill the requirements of the Department of Homeland Security's Financial Accountability Act, continue with the implementation of the Automated Commercial Environment, and continue to make improvements in CBP's internal controls. Improvements in Asset Management and Facilities will continue. We are beginning to launch important improvements in investment management, which will enable CBP to better plan and execute capital investment.

I would like to thank the men and women that make up this organization for the hard work they do every day. While processes and systems are important, first and foremost CBP and OF rely on our employees to get the job done. How we continue to grow, improve, and remain successful is our collective challenge. Our goal remains to provide timely, reliable, and useful financial management information to Congress and to the American public, and to enable the managers across CBP to make smart business decisions.

A handwritten signature in black ink, appearing to read 'E. H. Schied', is centered on the page.

Eugene H. Schied  
Chief Financial Officer  
November 13, 2007

# Financial Statements

**Customs and Border Protection  
Consolidated Balance Sheet  
As of September 30, 2007 and 2006  
(In Thousands)**

	<b>2007</b>	<b>2006</b>
<b>ASSETS (Note 2)</b>		
<b>Intragovernmental:</b>		
Fund Balance with Treasury (Note 3)	\$ 7,196,406	\$10,367,400
Accounts Receivable (Note 5)	30,553	48,160
Receivables Due from Treasury – Refund and Drawback (Note 5)	175,870	412,427
Advances and Prepayments (Note 11)	211,234	174,523
<b>Total Intragovernmental</b>	<b>7,614,063</b>	<b>11,002,510</b>
Cash and Other Monetary Instruments (Note 4)	7,181	5,649
Accounts Receivable, Net (Note 5)	151,402	162,707
Tax, Duties and Trade Receivables, Net (Note 6)	1,936,874	1,754,622
Inventory and Related Property, Net (Note 7)	76,817	67,166
General Property, Plant and Equipment, Net (Note 9)	2,513,855	1,924,891
Advances and Prepayments (Note 11)	417	605
<b>TOTAL ASSETS</b>	<b>\$12,300,609</b>	<b>\$14,918,150</b>
 <b>Stewardship PP&amp;E (Note 10)</b>		
 <b>LIABILITIES (Note 12)</b>		
<b>Intragovernmental:</b>		
Due to the Treasury General Fund	\$ 2,078,305	\$ 1,799,521
Accounts Payable	342,049	122,934
Accrued FECA Liability (Note 12)	129,558	118,226
Other		
Employee Benefits and Taxes (Note 15)	42,299	35,335
Advances from Others (Note 15)	9,375	7,970
<b>Total Intragovernmental</b>	<b>\$ 2,601,586</b>	<b>\$ 2,083,986</b>

**(Continued)**

**Customs and Border Protection  
Consolidated Balance Sheet (continued)  
As of September 30, 2007 and 2006  
(In Thousands)**

	<b>2007</b>	<b>2006</b>
Accounts Payable	635,306	377,817
Accrued Payroll and Benefits (Note 13)	1,031,557	926,276
Environmental & Disposal Liabilities (Note 12 and 14)	12,369	15,823
Liabilities for Antidumping/Countervailing Duties	597,907	199,254
Software License Agreements (Note 12 and 16)	47,680	61,691
Legal Contingent Liabilities (Note 17)	83,463	62,196
Other		
Refunds Payable (Note 15)	131,053	5,593,334
Injured Domestic Industries (Note 15)	388,138	475,751
<b>TOTAL LIABILITIES</b>	<b>\$ 5,529,059</b>	<b>\$ 9,796,128</b>
 <b>Commitment and Contingencies (Note 17)</b>		
 <b>NET POSITION:</b>		
Unexpended Appropriations	4,124,660	2,971,412
Cumulative Results of Operations – Earmarked Funds (Note 18)	1,027,476	1,094,642
Cumulative Results of Operations – Other Funds	1,619,414	1,055,968
<b>TOTAL NET POSITION</b>	<b>\$ 6,771,550</b>	<b>\$ 5,122,022</b>
 <b>TOTAL LIABILITIES AND NET POSITION</b>	 <b>\$12,300,609</b>	 <b>\$14,918,150</b>

The accompanying notes are an integral part of these statements.

# Financial Statements

**Customs and Border Protection  
Consolidated Statements of Net Cost  
For the Years Ended September 30, 2007 and 2006  
(In Thousands)**

	<u>2007</u>	<u>2006</u>
<b>Office of Field Operations Border Security Inspections and Trade Facilitation at Ports of Entry</b>		
Gross Cost	\$5,140,275	\$4,693,579
Less: Earned Revenue	<u>203,479</u>	<u>195,216</u>
<b>Net Program Costs</b>	<u>\$4,936,796</u>	<u>\$4,498,363</u>
<b>Border Security and Control Between Ports of Entry</b>		
Gross Cost	\$2,844,570	\$2,250,496
Less: Earned Revenue	<u>112,604</u>	<u>93,603</u>
<b>Net Program Costs</b>	<u>\$2,731,966</u>	<u>\$2,156,893</u>
<b>Air and Marine Operations</b>		
Gross Cost	\$ 369,251	\$ 350,887
Less: Earned Revenue	<u>14,617</u>	<u>14,594</u>
<b>Net Program Costs</b>	<u>\$ 354,634</u>	<u>\$ 336,293</u>
<b>Total Gross Cost</b>	\$8,354,096	\$7,294,962
<b>Less: Total Earned Revenue</b>	<u>330,700</u>	<u>303,413</u>
<b>Net Cost of Operations (Note 19 and 20)</b>	<u><u>\$8,023,396</u></u>	<u><u>\$6,991,549</u></u>

The accompanying notes are an integral part of these statements.

**Customs and Border Protection**  
**Consolidated Statement of Changes in Net Position**  
**For the Year Ended September 30, 2007**  
(In Thousands)

	<b>FY 2007</b>		
	<b>Earmarked Funds</b>	<b>All Other Funds</b>	<b>Consolidated Total</b>
<b>Cumulative Results of Operations:</b>			
Beginning Balances	\$ 1,094,642	\$ 1,055,968	\$ 2,150,610
<b>Budgetary Financing Sources:</b>			
Appropriations Used	—	5,614,963	5,614,963
Non-exchange Revenue (Note 21)	2,421,788	5,332	2,427,120
Transfers in/out without Reimbursement (Note 21)	(1,551,659)	1,808,507	256,848
Other	—	(92,140)	(92,140)
<b>Other Financing Sources (Non-Exchange):</b>			
Donations and Forfeitures of Property	—	3,618	3,618
Transfers in/out without Reimbursement	(49)	3,558	3,509
Imputed Financing	—	305,758	305,758
Total Financing Sources	870,080	7,649,596	8,519,676
Net Cost of Operations	(937,246)	(7,086,150)	(8,023,396)
Net Change	(67,166)	563,446	496,280
<b>Cumulative Results of Operations</b>	<u>\$ 1,027,476</u>	<u>\$ 1,619,414</u>	<u>\$ 2,646,890</u>
<b>Unexpended Appropriations:</b>			
Beginning Balance	—	2,971,412	2,971,412
<b>Budgetary Financing Sources:</b>			
Appropriations Received (Note 23)	—	6,733,265	6,733,265
Appropriations Transferred in/out	—	62,883	62,883
Other Adjustments	—	(27,937)	(27,937)
Appropriations Used	—	(5,614,963)	(5,614,963)
Total Budgetary Financing Sources	—	1,153,248	1,153,248
<b>Total Unexpended Appropriations</b>	—	4,124,660	4,124,660
<b>Net Position</b>	<u>\$ 1,027,476</u>	<u>\$ 5,744,074</u>	<u>\$ 6,771,550</u>

The accompanying notes are an integral part of these statements.

# Financial Statements

**Customs and Border Protection**  
**Consolidated Statement of Changes in Net Position**  
**For the Year Ended September 30, 2006**  
(In Thousands)

	FY 2006		
	Earmarked Funds	All Other Funds	Consolidated Total
<b>Cumulative Results of Operations:</b>			
Beginning Balances	\$ 1,057,701	\$ 966,270	\$ 2,023,971
<b>Budgetary Financing Sources:</b>			
Appropriations Used	—	4,460,061	4,460,061
Non-exchange Revenue (Note 21)	2,367,316	5,289	2,372,605
Transfers in/out without Reimbursement (Note 21)	(1,469,510)	1,609,860	140,350
Other	—	(153,327)	(153,327)
<b>Other Financing Sources:</b>			
Donations and Forfeitures of Property	—	6,497	6,497
Transfers in/out without Reimbursement	49	40,879	40,928
Imputed Financing	—	251,074	251,074
Total Financing Sources	897,855	6,220,333	7,118,188
Net Cost of Operations	(860,914)	(6,130,635)	(6,991,549)
Net Change	36,941	89,698	126,639
<b>Cumulative Results of Operations</b>	<u>\$ 1,094,642</u>	<u>\$ 1,055,968</u>	<u>\$ 2,150,610</u>
<b>Unexpended Appropriations:</b>			
Beginning Balance	—	2,070,402	2,070,402
<b>Budgetary Financing Sources:</b>			
Appropriations Received (Note 23)	—	5,440,771	5,440,771
Appropriations Transferred in/out	—	(15)	(15)
Other Adjustments	—	(79,685)	(79,685)
Appropriations Used	—	(4,460,061)	(4,460,061)
Total Budgetary Financing Sources	—	901,010	901,010
<b>Total Unexpended Appropriations</b>	<u>—</u>	<u>2,971,412</u>	<u>2,971,412</u>
<b>Net Position</b>	<u>\$ 1,094,642</u>	<u>\$ 4,027,380</u>	<u>\$ 5,122,022</u>

The accompanying notes are an integral part of these statements.

**Customs and Border Protection  
Combined Statements of Budgetary Resources  
For the Years Ended September 30, 2007 and 2006  
(In Thousands)**

	2007	2006
<b>Budgetary Resources:</b>		
Unobligated Balances Brought Forward, October 1	\$ 2,295,543	\$ 1,724,244
Recoveries of Prior Year Unpaid Obligations	198,505	217,202
Budget Authority:		
Appropriation (Note 23)	11,190,407	9,253,801
Spending Authority from Offsetting Collections:		
Earned:		
Collected	1,514,055	1,290,526
Change in Receivable from Federal Sources	(33,960)	9,849
Change in Unfilled Customer Orders:		
Advance Received	(2,401)	1,400
Without Advance from Federal Sources	(20,196)	42,063
Expenditure Transfers from Trust Funds	3,026	3,000
Subtotal	12,650,931	10,600,639
Nonexpenditure Transfers from Trust Funds	373,904	243,863
Permanently Not Available	(102,524)	(162,676)
<b>Total Budgetary Resources</b>	<b>\$15,416,359</b>	<b>\$12,623,272</b>
 <b>Status of Budgetary Resources:</b>		
Obligations Incurred: (Note 22)		
Direct	\$11,034,771	\$ 9,032,372
Reimbursable	1,486,683	1,295,357
Subtotal	12,521,454	10,327,729
Unobligated Balance:		
Apportioned	16,641	293,495
Exempt from Apportionment	—	328
Subtotal	16,641	293,823
Unobligated Balance Not Available	2,878,264	2,001,720
<b>Total Status of Budgetary Resources</b>	<b>\$15,416,359</b>	<b>\$12,623,272</b>

**(Continued)**

The accompanying notes are an integral part of these statements.

# Financial Statements

**Customs and Border Protection**  
**Combined Statement of Budgetary Resources (continued)**  
**For the Years Ended September 30, 2007 and 2006**  
**(In Thousands)**

	<u>2007</u>	<u>2006</u>
<b>Change in Obligated Balances:</b>		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	\$ 3,067,174	\$ 2,397,626
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(374,941)	(323,029)
Total Unpaid Obligated Balance, Net	2,692,233	2,074,597
Obligations Incurred, Net	12,521,454	10,327,729
Gross Outlays	(11,354,401)	(9,440,979)
Obligated Balance Transferred, Net		
Actual Transfers, Unpaid Obligations	34,008	—
Recoveries of Prior Year Unpaid Obligations, Actual	(198,505)	(217,202)
Change In Uncollected Customer Payments From Federal Sources	54,156	(51,912)
Obligated Balance, Net End Of Period		
Unpaid Obligations	4,069,728	3,067,174
Uncollected Customer Payments from Federal Sources	(320,785)	(374,941)
Total, Unpaid Obligated Balance, Net, End of Period	<u>3,748,943</u>	<u>2,692,233</u>
<b>Net Outlays:</b>		
Gross Outlays	11,354,401	9,440,979
Offsetting Collections	(1, 514,680)	(1,294,926)
Distributed Offsetting Receipts	(2,360,600)	(2,347,944)
Total Net Outlays	<u>\$ 7,479,121</u>	<u>\$ 5,798,109</u>

The accompanying notes are an integral part of these statements.

**Customs and Border Protection**  
**Consolidated Statement of Custodial Activity**  
**For the Years Ended September 30, 2007 and 2006**  
(In Thousands)

	<b>2007</b>	<b>2006</b>
<b>Revenue Activity:</b>		
<b>Sources of Cash Collections:</b>		
Duties	\$26,657,868	\$24,729,875
User Fees	1,307,306	1,241,961
Excise Taxes	2,626,443	2,426,725
Fines and Penalties	56,321	51,224
Interest	13,277	8,649
Miscellaneous	2,548	11,431
<b>Total Cash Collections</b>	<b>30,663,763</b>	<b>28,469,865</b>
Accrual Adjustments (+/-)	5,727,469	(5,371,096)
<b>Total Custodial Revenue</b>	<b>\$36,391,232</b>	<b>\$23,098,769</b>
 <b>Disposition of Collections:</b>		
<b>Transferred to Others:</b>		
Treasury General Fund Accounts	\$23,542,946	\$27,137,083
U.S. Department of Agriculture	147,421	126,608
Other Federal Agencies	21,214	16,661
Government of Puerto Rico	14,158	14,424
Government of the U.S. Virgin Islands	5,299	6,435
Refunds and Drawbacks (Note 27)	6,922,034	1,160,051
Non-federal Other	13,229	8,603
<b>(Increase)/Decrease in Amounts Yet to be Transferred</b>	<b>5,724,931</b>	<b>(5,371,096)</b>
 <b>Total Disposition of Custodial Revenue</b>	<b>36,391,232</b>	<b>23,098,769</b>
<b>Net Custodial Activity</b>	<b>\$ —</b>	<b>\$ —</b>

The accompanying notes are an integral part of these statements.

## Notes to Financial Statements

### 1. Significant Accounting Policies

#### Reporting Entity

U.S. Customs and Border Protection (CBP), was created on March 1, 2003, and is a component 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 one percent of revenues collected) directly to other federal agencies, the Governments of Puerto Rico and the U.S. Virgin Islands. 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

These financial statements have 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 statements consist of the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and the Consolidated Statement of Custodial Activity.

These financial statements should be read with the realization that they are 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.

These financial statements, with respect to the Consolidated Balance Sheet, the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position, are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. The Combined Statement of Budgetary Resources is reported using the budgetary basis of accounting. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. It generally differs from the accrual basis of accounting in that obligations are

recognized when new orders are placed, contracts awarded and services received that will require payments during the same or future period. CBP non-entity revenue and refunds are reported on the Consolidated Statement of Custodial Activity using a modified cash basis. With this method, revenue from cash collections are reported separately from receivable accruals and cash disbursements are reported separately from payable accruals.

In accordance with OMB Circular A-136, intra-CBP transactions and balances have been eliminated from the Consolidated Balance Sheet, Consolidated Statement of Net Cost, and the Consolidated Statement of Changes in Net Position. As provided for by OMB Circular A-136, the Combined Statement of Budgetary Resources is presented on a combined basis; therefore, intra-CBP transactions and balances have not been eliminated from this statement.

Effective FY 2007, the Statement of Financing was removed as a basic financial statement. Federal agencies are now required to disclose the reconciliation of net cost of operations to budgetary accounts in a note to the financial statements in accordance with OMB Circular No. A-136. Accordingly, CBP presented comparative FY 2007 and FY 2006 reconciliation of net cost of operations to budget. See Note 28 for specific disclosure related to CBP's Reconciliation of Net Cost of Operations to Budget.

## Earmarked Funds

The Statement of Federal Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*, requires separating dedicated collections into two categories, earmarked and fiduciary activity. See Note 18, Earmarked Funds, for specific required disclosures related to CBP's earmarked funds.

CBP has program management responsibility for the following earmarked funds:

Appropriation	Title
70X5087	CBP - Immigration User Fees
70X5695	Customs User Fees Account
70X5089	Land Border Inspection Fees
70X5451	Enforcement Fines Account
70X5694	Small Airport User Fees
70X8870	Harbor Maintenance Fee Collections

## Assets and Liabilities

Intragovernmental 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 Balance with Treasury are the amounts remaining as of September 30, 2007 and 2006 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

# Notes to Financial Statements

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.

A timing difference occurs when cash is received and applied to a specific revenue type in one period, and the deposit 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**

Intragovernmental 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 primarily of prepaid rent.

## **Accounts Receivable**

Intragovernmental 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. By law, collections of these receivables can be credited to the appropriation accounts from which the related costs were paid. 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.

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, 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 within thirty-one 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.

Title 8 of the United States Code, chapter 12, subchapter II, part IX, section 1356 authorizes CBP, 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 any time within thirty-one days after the quarter in which the fees are collected, except 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.

## **Receivable Due from Treasury and Due to the Treasury General Fund**

The Receivable Due from Treasury represents amounts to be provided by Treasury to fund accrued liabilities of duty, tax and/or fee refunds and drawbacks. Due to the Treasury General Fund is the offsetting liability to non-entity collections and non-entity receivables.

## **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 non-entity receivables are described in more detail in Note 6, Tax, Duties and Trade Receivables, Net.

## **Inventory and Related Property**

Inventory and Related Property consist of aircraft and marine parts and materials to be used 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 used 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. 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 Consolidated Balance Sheet or Note 8, Seized and Forfeited Property.

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 8, Seized and Forfeited Property.

## **General 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

# Notes to Financial Statements

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 increases 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 2 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, 2007 and 2006.

## **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 Consolidated 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. For additional information see Note 13, Accrued Payroll and Benefits.

## **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 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 2007 and 2006. 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. For additional information see Note 13, Accrued Payroll and Benefits.

## **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 intragovernmental other liabilities and the actuarial liability is presented as Federal Employee and Veterans Benefits in the accompanying Consolidated 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 usually occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intragovernmental 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 components and department offices based on the payment history for the components and department offices. The accrued liability is not covered by budgetary resources and will require future funding.

# Notes to Financial Statements

## 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, Plant and Equipment, Inventory and Related Property 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. The portion of Cumulative Results of Operations attributable to earmarked funds is shown separately on both the Consolidated Statement of Changes in Net Position and the Consolidated Balance Sheet. For additional information see Note 18, Earmarked Funds.

## Revenue, Financing Sources and Expense Recognition

CBP entity activities are financed principally through appropriations, exchange revenue and non-exchange revenue. Appropriations used are recognized as a financing source when expenses are incurred or assets are purchased. Exchange revenues from reimbursable services and intragovernmental reimbursable activity are recognized as earned when the goods or services are provided and reflect the full cost of the goods or services provided. Non-exchange revenue from user fees is recognized as earned in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended. CBP may retain the user fee revenues and expend them as authorized by law for CBP inspector overtime and other activities directly related to the services to which the fees relate. An imputed financing source is also recognized to offset costs incurred by CBP but funded by another federal source, generally in the period in which the cost was incurred. Expenses are recognized when goods or services are received, when inventory is used, or assets are depreciated or amortized.

The FY 2007 and 2006 activities reported on the Consolidated Statement of Net Cost contain all resource costs assigned from CBP cost centers. All field operational cost centers were surveyed for time spent in the Passenger Processing, Trade Compliance, Outbound Operations and field Mission Support activities. For enforcement operational cost centers, the time spent in the activities was extracted from the Customs Electronic Data Warehouse. Time reported by the field and enforcement operational cost centers is also used to assign mission support and overhead costs to "front-line" activities.

Non-entity Revenue is recognized when the cash CBP is entitled to collect on behalf of the Federal Government is received. Primarily, these revenue collections result from current fiscal year activities. The significant types of revenues collected and related disbursements are described below:

- Duties: amounts collected on imported goods.
- User fees: amounts collected for certain services as provided by law.
- Excise taxes: amounts collected on imported distilled spirits, wines and tobacco products, and other miscellaneous taxes collected on behalf of the Federal Government.

- Fines and penalties: amounts collected for violations of laws and regulations.
- Refunds: payments made to importers/exporters are primarily identified when the import entries are liquidated, a process in which CBP makes final determination of duties, taxes, fees and interest owed on each entry and compares it to the estimated amount previously determined and paid by the importer/broker. Interest is included in the refund generally for the period of time between when the estimated amounts were received from the importer/broker and the time the entry is liquidated. When a refund is identified prior to liquidation, the refund from this remittance is funded from the duty, tax or fee collections rather than from the Refunds and Drawback Account.
- Drawback: a remittance, in whole or in part, of duties, taxes or fees. 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. Depending on the type of claim, the claimant has up to six or eight years from the date of importation to file for drawback.

A financing source for refunds and drawback is recognized when payment is made. The financing source, representing the permanent, indefinite appropriation account used to fund the disbursement, is recorded as a decrease in the amount transferred to Treasury General Fund Accounts reported on the Statement of Custodial Activity.

An accrual adjustment is included to adjust cash collections and refund disbursements with the net increase or decrease of accrued Non-entity Accounts Receivables, net of uncollectible amounts and refunds payable. 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 into U.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. Proceeds from the sale of general order property totaled \$5.6 million and \$9 million for the years ended September 30, 2007 and 2006, respectively. Excess amounts returned to the Treasury General Fund totaled \$478 thousand and \$908 thousand for the years ended September 30, 2007 and 2006, respectively.

## **Use of Estimates**

Management has made certain estimates and assumptions in the reporting of assets, liabilities and note disclosures in the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, the Consolidated Statement of Custodial Activity 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.

# Notes to Financial Statements

## Taxes

CBP, as a federal component, 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.

## Reclassifications

Certain FY 2006 balances have been reclassified, re-titled, or combined with other financial statement line items for consistency with current year presentation.

## 2. Non-entity Assets

Non-entity assets as of September 30, 2007 and 2006, consist of the following (in thousands):

	<u>2007</u>	<u>2006</u>
<b>Intragovernmental:</b>		
Fund Balance with Treasury (Note 3)	\$ 1,123,689	\$ 5,944,570
Receivables Due from Treasury (Note 5)	175,870	412,427
Total Intragovernmental	<u>1,299,559</u>	<u>6,356,997</u>
<b>Public:</b>		
Accounts Receivable, Net	2,538	—
Cash and Other Monetary Instruments (Note 4)	5,207	5,305
Tax, Duties and Trade Receivables, Net (Note 6)	1,936,874	1,754,622
Property, Plant and Equipment, Net	2,423	2,628
Total Public	<u>1,947,042</u>	<u>1,762,555</u>
<b>Total Non-Entity Assets</b>	<u>3,246,601</u>	<u>8,119,552</u>
<b>Total Entity Assets</b>	<u>9,054,008</u>	<u>6,798,598</u>
<b>Total Assets</b>	<u>\$12,300,609</u>	<u>\$14,918,150</u>

Non-entity Fund Balance with Treasury as of September 30, 2007 and 2006 includes approximately \$465 million and \$5.2 billion (in deposit fund) in duties collected by CBP for unliquidated anti-dumping/ countervailing duties and \$574 million and \$566 million (in special fund) for Injured Domestic Industries as of September 30, 2007 and 2006, respectively. These assets offset accrued liabilities as of September 30, 2007 and 2006.

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. Duties and taxes receivable from the public represent amounts due from importers for goods and merchandise imported to the United States and, upon collection, will be available to pay the accrued intragovernmental liability Due to the Treasury General Fund, which equaled \$2.1 billion and \$1.8 billion as of September 30, 2007 and 2006.

## 3. Fund Balance with Treasury

Fund Balance with Treasury as of September 30, 2007 and 2006 consists of the following (in thousands):

<u>2007</u>	<u>Entity</u>	<u>Non-Entity</u>	<u>Totals</u>
Trust Funds	\$ 5,902	\$ —	\$ 5,902
General Funds	5,128,074	84,774	5,212,848
Special Funds	934,181	573,703	1,507,884
Deposit Funds	4,560	465,212	469,772
<b>Totals</b>	<u>\$6,072,717</u>	<u>\$1,123,689</u>	<u>\$ 7,196,406</u>

<u>2006</u>	<u>Entity</u>	<u>Non-Entity</u>	<u>Totals</u>
Trust Funds	\$ 8,563	\$ —	\$ 8,563
General Funds	3,409,454	163,949	3,573,403
Special Funds	1,001,243	566,127	1,567,370
Deposit Funds	3,570	5,214,494	5,218,064
<b>Totals</b>	<u>\$4,422,830</u>	<u>\$5,944,570</u>	<u>\$10,367,400</u>

General funds consist of amounts appropriated annually by Congress to fund the operations of CBP. The non-entity general 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, 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 used 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, 2007 and 2006, CBP User Fees Account contained approximately \$729.9 million and \$761.1 million, respectively; CBP Services at Small Airports account contained approximately \$10.4 million and \$8 million, respectively; and the Refunds, Transfers and Expenses of Operation of Puerto Rico account contained approximately \$32.9 million and \$31.8 million respectively. CBP also has entity special funds for immigration user fees of \$159.1 million and \$192.8 million, land border inspection fees of \$1.5 million and \$6.2 million, and immigration enforcement account of \$.3 million and \$1.1 million as of September 30, 2007 and 2006, respectively. Non-entity fund balance includes monies received in connection with antidumping and

## Notes to Financial Statements

countervailing duty orders and findings to qualifying Injured Domestic Industries of \$573.7 million and \$566 million as of September 30, 2007 and 2006, respectively.

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. Deposit funds represent amounts received as an advance that are not accompanied by an order and include non-entity collections. The September 30, 2006, deposit fund balance is significantly higher than the September 30, 2007, balance due to deposits relating to Canadian softwood lumber imports.

Status of Fund Balance with Treasury as of September 30, 2007 and 2006 consists of the following (in thousands):

<u>2007</u>	<u>Entity</u>	<u>Non-Entity</u>	<u>Totals</u>
Unobligated Balance			
Available	\$ 16,641	\$1,123,689	\$ 1,140,330
Unavailable	1,624,298	—	1,624,298
Obligated Balance not yet Disbursed	3,751,514	—	3,751,514
Restricted Unobligated Funds	680,264	—	680,264
<b>Totals</b>	<u>\$6,072,717</u>	<u>\$1,123,689</u>	<u>\$ 7,196,406</u>
<u>2006</u>	<u>Entity</u>	<u>Non-Entity</u>	<u>Totals</u>
Unobligated Balance			
Available	\$ 293,823	\$5,944,570	\$ 6,238,393
Unavailable	749,160	—	749,160
Obligated Balance not yet Disbursed	2,693,415	—	2,693,415
Restricted Unobligated Funds	686,432	—	686,432
<b>Totals</b>	<u>\$4,422,830</u>	<u>\$5,944,570</u>	<u>\$10,367,400</u>

Amounts reported as Unobligated Balance Unavailable and Obligated Balance not yet Disbursed will not match amounts reported on the Combined Statement of Budgetary Resources due to CBP reporting all Non-entity Fund Balance with Treasury amounts as Unobligated Balance Available. Portions of the Unobligated Balance Available, Unobligated Balance Unavailable and Obligated Balance not yet Disbursed contains CBP's user fees account balance of \$680 and \$640 million as of September 30, 2007 and 2006, 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 \$73 million and \$83 million for indefinite no-year authority and \$1.9 million in authority for obligations pursuant to public law during both the years ending September 30, 2007 and 2006.

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, 2007, CBP canceled \$29 million from FY 2002 annual appropriations, of which \$23.8 million was deobligated. As of September 30, 2006, CBP canceled \$20.2 million from FY 2001 annual appropriations, of which \$14.4 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.

## 4. Cash and Other Monetary Instruments

Cash and Other Monetary Instruments as of September 30, 2007 and 2006, consist of the following (in thousands):

<u>2007</u>	<u>Entity</u>	<u>Non-Entity</u>	<u>Totals</u>
Imprest Funds	\$ 147	\$ —	\$ 147
Undeposited Collections	1,827	4,957	6,784
Monetary Instruments	—	250	250
<b>Totals</b>	<u>\$1,974</u>	<u>\$5,207</u>	<u>\$7,181</u>
<u>2006</u>	<u>Entity</u>	<u>Non-Entity</u>	<u>Totals</u>
Imprest Funds	\$ 118	\$ —	\$ 118
Undeposited Collections	226	4,945	5,171
Monetary Instruments	—	360	360
<b>Totals</b>	<u>\$ 344</u>	<u>\$5,305</u>	<u>\$5,649</u>

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

# Notes to Financial Statements

## 5. Accounts Receivable, Net

### Intragovernmental Accounts Receivable

Accounts receivable due from other federal agencies, as of September 30, 2007 and 2006, total \$30.6 million and \$48.2 million respectively, and are considered fully collectible.

### 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 \$175.9 million and \$412.4 million, as of September 30, 2007 and 2006, respectively.

### Accounts Receivable with Public, Net

As of September 30, 2007 and 2006 Accounts receivable with the public consists of reimbursable service receivables total \$6 million and \$3 million respectively, and are considered fully collectible; Customs user fee receivables total \$76 million and \$72 million, and are net of uncollectible amounts totaling \$3 million and \$2 million respectively; Immigration user fee receivables totals \$69 million and \$88 million, and are net of uncollectible amounts totaling \$19 million and \$13 million respectively.

## 6. Tax, Duties and Trade Receivables, Net

Receivables as of September 30, 2007 and 2006 are as follows (in thousands):

Receivable Category	2007		
	Gross Receivable	Amounts Uncollectible	Total Net Receivables
Duties	\$1,648,851	\$ (115,903)	\$1,532,948
Excise Taxes	126,752	(5,652)	121,100
User fees	132,452	(5,164)	127,288
Fines/penalties	1,115,645	(1,051,246)	64,399
Interest	190,338	(175,458)	14,880
Anti-Dumping/ Countervailing Duties	311,135	(235,041)	76,094
Refunds and drawback	2,062	(1,897)	165
<b>Totals</b>	<b>\$3,527,235</b>	<b>\$(1,590,361)</b>	<b>\$1,936,874</b>

## Notes to Financial Statements

<u>Receivable Category</u>	<b>2006</b>		
	<u>Gross Receivable</u>	<u>Amounts Uncollectible</u>	<u>Total Net Receivables</u>
Duties	\$1,553,714	\$ (117,932)	\$1,435,782
Excise Taxes	99,178	(5,630)	93,548
User fees	120,041	(12,864)	107,177
Fines/penalties	1,120,769	(1,071,114)	49,655
Interest	164,589	(156,361)	8,228
Anti-Dumping/ Countervailing Duties	260,929	(200,777)	60,152
Refunds and drawback	2,077	(1,997)	80
<b>Totals</b>	<u>\$3,321,297</u>	<u>\$(1,566,675)</u>	<u>\$1,754,622</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 15<sup>th</sup> work day of the month following release. A receivable of \$1.7 billion and \$1.6 billion was recorded for 887,574 entries and 844,069 entries for merchandise released into commerce on or before September 30, 2007 and 2006, respectively, of which \$967 million and \$769 million related to importers using the periodic monthly payment. There were an additional 4,829 entries and 4,541 entries for merchandise released into commerce on or before September 30, 2007 and 2006, respectively, for which a receivable amount could not be determined because the entry summary documentation describing the type, quantity, and value of the merchandise had not been received from the importers. 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 fine 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 94.75 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.

## 7. Inventory and Related Property, Net

### Operating Materials and Supplies

Operating Materials and Supplies consist of parts and materials to repair and maintain CBP aircraft and vessels used in enforcement activities. CBP holds operating materials and supplies for future use only. CBP does not hold operating materials and supplies in reserve or excess.

Operating Materials and Supplies as of September 30, 2007 and 2006 consist of the following (in thousands):

	<u>2007</u>	<u>2006</u>
Aircraft	\$73,290	\$63,350
Vessels	3,527	3,816
<b>Totals</b>	<u>\$76,817</u>	<u>\$67,166</u>

## 8. 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 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. Steroids and ecstasy are added to the September 30, 2007 schedule. Firearms and pornography are presented in number of items.

## Analysis of Changes in Prohibited (Non-Valued) Seized Property, September 30, 2007

Category	Unit of Measurement	Balance October 1 (1)	New Seizures	Remissions	New Forfeitures	Adjustments (2)	Balance September 30
<b>Illegal Drugs</b>							
Cannabis (marijuana)	Kilograms	737	774,841	0	(772,729)	405	3,254
Cocaine	Kilograms	353	22,985	0	(23,075)	(77)	186
Heroin	Kilograms	20	5,459	0	(5,463)	4	20
Ecstasy	Kilograms	0	1,426	0	(1,393)	0	33
Steroids	Kilograms	0	514	(65)	(305)	(8)	136
<b>Firearms</b>	Number	864	1,970	(886)	(675)	(143)	1,130
<b>Pornography</b>	Number	101	173	(3)	(140)	(55)	76

(1) Beginning balances for ecstasy and steroids are not reported in this column since this is the first year for reporting these categories. The beginning balances for ecstasy and steroid are reported in the adjustments column.

(2) Adjustments are caused by changes during the year to the beginning balances of cases. An example includes changes in the quantity from the amount reported in the beginning balance. Also, a prior year case can change legal status or property type. For example, a case considered forfeited could be re-opened and changed to seized status or a drug property type may change on a case. Beginning balances for ecstasy and steroids are reported in the adjustment column since FY 07 is the first year for reporting these categories.

## Analysis of Changes in Prohibited (Non-Valued) Seized Property, September 30, 2006

Category	Unit of Measurement	Balance October 1	New Seizures	Remissions	New Forfeitures	Adjustments (1)	Balance September 30
<b>Illegal Drugs</b>							
Cannabis (marijuana)	Kilograms	502	439,748	0	(439,597)	84	737
Cocaine	Kilograms	162	28,513	0	(28,289)	(33)	353
Heroin	Kilograms	26	1,345	0	(1,345)	(6)	20
<b>Firearms and Explosives</b>							
Firearms	Number	2,021	1,362	(936)	(1,521)	(62)	864
<b>Pornography</b>	Number	141	158	0	(138)	(60)	101

(1) Adjustments are caused by changes during the fiscal year to cases on the beginning balance. For example, changes in quantity from the amount reported in the beginning balance. Additionally, prior year cases can change legal status or property type. For example, a case considered forfeited could be re-opened and changed to seized status, or a case can change a particular drug property type.

# Notes to Financial Statements

## Analysis of Changes in Prohibited (Non-Valued) Forfeited Property, September 30, 2007

Category	Unit of Measurement	Balance October 1 (1)	New Forfeitures	Transfers	Destroyed	Adjustments (2)	Balance September 30
<b>Illegal Drugs</b>							
Cannabis (marijuana)	Kilograms	97,304	772,729	(234,858)	(459,151)	(3,629)	172,395
Cocaine	Kilograms	19,584	23,075	(156)	(20,545)	(394)	21,564
Heroin	Kilograms	2,221	5,463	(4)	(1,045)	(43)	6,592
Ecstasy	Kilograms	0	1,393	(9)	(1,060)	1,543	1,867
Steroids	Kilograms	0	305	0	(314)	22	13
<b>Firearms</b>	Number	253	675	(607)	(2)	29	348
<b>Pornography</b>	Number	32	140	(1)	(195)	53	29

(1) Beginning balances for ecstasy and steroids are not reported in this column since this is the first year for reporting these categories. The beginning balances for ecstasy and steroid are reported in the adjustments column.

(2) Adjustments are caused by changes during the year to the beginning balances of cases. An example includes changes in the quantity from the amount reported in the beginning balance. Also, a prior year case can change legal status or property type. For example, a case considered forfeited could be re-opened and changed to seized status or a drug property type may change on a case. Beginning balances for ecstasy and steroids are reported in the adjustment column since FY 07 is the first year for reporting these categories.

## Analysis of Changes in Prohibited (Non-Valued) Forfeited Property, September 30, 2006

Category	Unit of Measurement	Balance October 1	New Forfeitures	Transfers	Destroyed	Adjustments (1)	Balance September 30
<b>Illegal Drugs</b>							
Cannabis (marijuana)	Kilograms	92,834	439,597	(3,167)	(362,988)	(68,972)	97,304
Cocaine	Kilograms	21,513	28,289	(7)	(29,663)	(548)	19,584
Heroin	Kilograms	2,104	1,345	(1)	(1,242)	15	2,221
<b>Firearms and Explosives</b>							
Firearms	Number	276	1,521	(1,551)	(4)	11	253
<b>Pornography</b>	Number	39	138	0	(178)	33	32

(1) Adjustments are caused by changes during the fiscal year to cases on the beginning balance or transfer to another agency after forfeiture. The majority of adjustments to illegal drugs refers to forfeited cases where drugs were transferred to DEA. Prior year cases can change legal status or property type. For example, a case considered forfeited could be re-opened and changed to seized status, or a case can change a particular drug property type.

## 9. General Property, Plant and Equipment, Net

Property, Plant and Equipment as of September 30, 2007 and 2006 consist of the following (in thousands):

Categories	Useful Life (in years)	2007		
		Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Land and Land Rights	N/A	\$ 41,493	\$ —	\$ 41,493
Improvements to Land	6–40	78,449	(35,397)	43,052
Construction in Progress	N/A	735,203	—	735,203
Buildings, Other Structures and Facilities (a)	6–40	612,572	(109,968)	502,604
Equipment:				
ADP Equipment	5	286,896	(167,347)	119,549
Aircraft	12–20	825,749	(483,296)	342,453
Vessels	5–30	22,484	(13,661)	8,823
Vehicles	3–8	355,776	(282,165)	73,611
Other Equipment	5–15	629,136	(372,560)	256,576
Assets Under Capital Lease	2–10	10,157	(10,157)	—
Leasehold Improvements	2–30	189,563	(50,893)	138,670
Internal Use Software	5	581,559	(440,634)	140,925
Internal Use Software-in Development	N/A	110,896	—	110,896
<b>Totals</b>		<u>\$4,479,933</u>	<u>\$(1,966,078)</u>	<u>\$2,513,855</u>

# Notes to Financial Statements

2006

Categories	Useful Life (in years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Land and Land Rights	N/A	\$ 27,690	\$ —	\$ 27,690
Improvements to Land	6–40	28,115	(17,268)	10,847
Construction in Progress	N/A	257,802	—	257,802
Buildings, Other Structures and Facilities (a)	6–40	512,450	(95,519)	416,931
Equipment:				
ADP Equipment	5	237,000	(127,939)	109,061
Aircraft	12–20	749,566	(451,721)	297,845
Vessels	5–30	22,392	(12,072)	10,320
Vehicles	3–8	348,871	(268,022)	80,849
Other Equipment	5–15	589,536	(289,395)	300,141
Assets Under Capital Lease	2–10	10,279	(10,162)	117
Leasehold Improvements	2–30	206,690	(62,736)	143,954
Internal Use Software	5	575,045	(346,698)	228,347
Internal Use Software-in Development	N/A	40,987	—	40,987
<b>Totals</b>		<u>\$3,606,423</u>	<u>\$(1,681,532)</u>	<u>\$1,924,891</u>

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

## 10. Stewardship PP&E

As of September 30, 2007 and 2006, CBP maintains four multi-use heritage assets located in Puerto Rico valued at \$534 thousand and are fully depreciated. 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. Additional information for heritage assets and general PP&E is presented in the required supplementary information.

## 11. Advances and Prepayments

Intragovernmental advances and prepayments as of September 30, 2007 and 2006, totaling \$211.2 and \$174.5 million respectively, consist of advances to UNICOR for vehicle purchases.

Advances and prepayments with the public as of September 30, 2007 and 2006, totaling \$417 thousand and \$605 thousand respectively, consist of employee travel and salary advances and prepaid rent.

## 12. Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources as of September 30, 2007 and 2006, consist of the following (in thousands):

	<b>2007</b>	<b>2006</b>
<b>Intragovernmental:</b>		
Accrued FECA Liability	\$ 129,558	\$ 118,226
Total Intragovernmental	129,558	118,226
<b>Public:</b>		
Accrued Payroll and Benefits:		
Accrued Leave	249,584	227,692
Actuarial FECA Liability	618,969	556,745
<b>Other:</b>		
Environmental Cleanup Costs	12,369	15,823
Contingent Liability	38,463	14,804
Software License Agreements	47,680	61,691
<b>Total Public</b>	<b>967,065</b>	<b>876,755</b>
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>1,096,623</b>	<b>994,981</b>
<b>Total Liabilities Covered by Budgetary Resources or Non-Entity Assets</b>	<b>4,432,436</b>	<b>8,801,147</b>
<b>Total Liabilities</b>	<b>\$5,529,059</b>	<b>\$9,796,128</b>

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.

## 13. Accrued Payroll and Benefits

The payroll and benefits liability as of September 30, 2007 and 2006 consists of the following (in thousands):

	<b>2007</b>	<b>2006</b>
Accrued Funded Payroll and Benefits	\$ 163,004	\$141,839
Accrued Unfunded Leave	249,584	227,692
Actuarial FECA Liability	618,969	556,745
<b>Total</b>	<b>\$1,031,557</b>	<b>\$926,276</b>

Actuarial workers compensation liability 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.

# Notes to Financial Statements

## 14. Environmental & Disposal 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, 2007 and 2006 was \$12.4 million and \$15.8 million, respectively. The liability consists of underground fuel storage tanks (UST), occupied buildings containing friable asbestos material and firing ranges.

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.

## 15. Other Liabilities

CBP considers all Other Liabilities as current.

Other Intragovernmental Liabilities consist of Employee Benefits and Taxes of \$42 million and \$35 million, and Advances from Others of \$9 million and \$7.9 million as of September 30, 2007 and 2006, respectively.

Other Public Liabilities consist of the following:

### Refunds Payable

Refunds Payable consists of amounts owed for refunds of duty and other trade related activity and drawback claims. These liabilities, all considered current year liabilities, are principally funded from the Refunds and Drawback account.

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 \$32.4 million and \$9.8 million as of September 30, 2007 and 2006, respectively, as a payable.

The September 30, 2007 and 2006, accrued liability consists of the following (in thousands):

	<u>2007</u>	<u>2006</u>
Refunds	\$ 91,167	\$5,556,292
Drawback claims	39,886	37,042
<b>Total</b>	<u>\$131,053</u>	<u>\$5,593,334</u>

## 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 2007 and 2006, CBP liquidated \$388.1 million and \$475.8 million, respectively in AD/CV duty and recorded the liability.

## 16. Leases

### Software License Agreements

CBP has a software license fee agreement for a mainframe software license. The liability associated with this software license agreement is reflected on the accompanying Consolidated Balance Sheet based upon the present value of the future minimum license agreement payments. As of September 30, 2007 and 2006, the aggregate capitalized cost of the agreement still subject to lease is \$152.2 million. This agreement is included in the capitalized software.

As of September 30, 2007 (in thousands:)

<b>Summary of Assets Acquired through Capital Lease:</b>	<b>2007</b>		
	<b>Acquisition Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Personal Property (software & equipment)	\$162,403	\$(108,020)	\$54,383

As of September 30, 2006 (in thousands:)

<b>Summary of Assets Acquired through Capital Lease:</b>	<b>2006</b>		
	<b>Acquisition Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Personal Property (machinery & equipment)	\$162,525	\$ (92,584)	\$69,941

Future minimum payments for cancelable commercial off-the-shelf license agreement and the present value of the minimum license agreement payments as of September 30, 2007, are as follows (in thousands):

<b>Fiscal Year</b>	<b>2007</b>
2008	\$17,981
2009	17,981
2010	17,981
2011	—
2012	—
Beyond 2012	—
<b>Total future minimum license</b>	<b>53,943</b>
Less: Imputed interest	(6,263)
<b>Total net present value of software license agreements</b>	<b>\$47,680</b>

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

# Notes to Financial Statements

## 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 unless the rental agreement is non-cancelable. It is expected that CBP will continue to occupy and lease office space from GSA in future years.

The following schedule, by years, shows the future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year, as of September 30, 2007.

<b>Fiscal Year</b>	<b>Facilities</b>
2008	\$ 3,432
2009	3,450
2010	3,478
2011	3,506
2012	3,410
Beyond 2012	47,455
<b>Total future lease payments</b>	<b>\$64,731</b>

## 17. Commitments and Contingencies

### Legal Contingent Liabilities

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.

The range of estimated contingent liabilities for all probable and estimable litigation related claims as of September 30, 2007 was \$83.5 million to \$170.3 million. The estimated contingent liabilities for all probable and estimable litigation related to claims as of September 30, 2006 was \$62.2 million. Of these amounts, \$45 and \$47.4 million as of September 30, 2007 and 2006, respectively, were funded from appropriations for the Refund and Drawback Account. Asserted and pending legal claims for which loss is reasonably possible range from an estimated at \$34.5 million to \$373.8 million as of September 30, 2007. Asserted and pending legal claims for which loss was reasonably possible was \$64 million, as of September 30, 2006. As of September 30, 2007 CBP has 5 cases considered reasonably possible for which no estimate could be made.

## **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, 2007 and 2006 have been recorded.

## **Loaned Aircraft**

CBP is generally liable to the Department of Defense for damage or loss to aircraft on loan. CBP had 16 aircraft loaned from Department of Defense with an acquisition value of \$94.4 million, as of September 30, 2007 and 2006.

## **18. Earmarked Funds**

### **Consolidated Omnibus Budget Reconciliation (COBRA)**

In April 1986, the President signed the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985, which authorized the Customs and Border Protection (CBP) to collect user fees for certain services. The law initially established processing fees for air and sea passengers, commercial trucks, rail cars, private vessels and aircraft, commercial vessels, dutiable mail packages, and CBP broker permits. An additional fee category, contained in tax reform legislation, for processing barges and bulk carriers for Canada and Mexico, was added later that year. The collection of the COBRA fees for CBP services began on July 7, 1986.

In addition to the collection of user fees, other changes in CBP procedures were enacted due to the COBRA statute. Most importantly, provisions were included for providing non-reimbursable inspectional overtime services and paying for excess pre-clearance costs from the COBRA user fee collections.

The Customs and Trade Act of 1990 amended the COBRA legislation to provide for the hiring of inspectional personnel, the purchasing of equipment, and the covering of related expenses with any surplus monies available, after overtime and excess pre-clearance costs are satisfied. Expenditures from the surplus can only be used to enhance the service provided to those functions for which fees are collected. This legislation took effect on October 1, 1990.

19 USC Section 58c contains the Fees for certain Customs services. The authority to use these funds is contained in the annual Department of Homeland Security Appropriations Act.

Access to COBRA surplus funds provides CBP with additional resources to assist in the accomplishment of CBP's mission. Increased staffing and equipment have enhanced the manager's flexibility in dealing with the ever-increasing demands of the trade and travel communities.

# Notes to Financial Statements

## Immigration User Fees (IUF)

Joint Resolution (H.J. Res. 738), making continuing appropriations for FY 1987 (the “1987 Act”) (Public Laws 99-500 and 99-591), established the Immigration User Fee Account (IUFA) [requiring] the [collection] of a \$5.00 fee charged to each passenger arriving in the United States from foreign locations aboard commercial aircraft and commercial vessels except passengers whose journeys originated in the United States, Canada, Mexico, a territory or possession of the United States, or an adjacent island. The 1987 Act directed the [INS] Service, beginning in FY 1987, to collect an immigration user fee for each passenger arriving in the United States by commercial air or sea conveyance (with limited exceptions). This law was codified in 8 U.S.C. 1103, 1356, section 286, the Immigration and Nationality Act (INA).

In 1993, Congress amended section 286 of the INA by raising the immigration user fee from the original \$5 to \$6 with the passage of Public Law 103-121, making appropriations for the Departments of Commerce, Justice, and State, the Judiciary, and related agencies for the fiscal year ending September 30, 1994, and for other purposes.

In 1998, in Public Law 105-277, making appropriations for the Department of Transportation and related agencies for the fiscal year ending September 30, 1999, and for other purposes, Congress made a technical correction to section 286 by adding the word “State” to the list of exempt origination areas, making explicit what was already the policy.

In 2002, in Public Law 107-77, making appropriations for the Department of Commerce, Justice, and State, the Judiciary, and related agencies for the fiscal year ending September 30, 2002, and for other purposes, the immigration user fee was increased from \$6 to \$7.

Also in Public Law 107-77, Congress amended section 286(e) of the INA to authorize the Attorney General to charge and collect a user fee from certain previously exempt commercial vessel passengers. Prior to the enactment of this law, commercial vessel passengers whose journeys originated in Canada, Mexico, a State, territory or possession of the United States, or an adjacent island, were statutorily exempt from paying the Immigration User Fee prescribed by section 286(d) of the INA. While these vessel passengers were exempt from paying the fee, the [INS] Service was still required to provide inspection services.

The IUFA was also established as a repository for fines imposed to prevent unauthorized landing and unlawful bringing of aliens in to the United States, penalties for document fraud, 31 Act overtime, and liquidated damages and expenses collected. All deposits into the IUFA are available until expended.

The Department of Justice Appropriation Act of 1987 authorized legacy INS to collect user fees for processing commercial air and sea passengers. In FY 2003 with the formation of the DHS, legacy INS border functions transferred to CBP, while its interior enforcement activities fell to Immigration and Customs Enforcement (ICE). CBP collects and shares the revenue from the immigration user fees, appropriation 70X5087, based on a memorandum of understanding. CBP maintains approximately 83% of the user fee, while the other 17% is turned over to ICE.

CBP records the entire user fee as non-exchange revenue (collections) on the Statement of Custodial Activities.

## Notes to Financial Statements

The following tables present condensed data relating to CBP earmarked funds (disclosed in Note 1) as of and for the years ended September 30, 2007 and 2006 (in thousands):

	<b>2007</b>			
<b>Balance Sheet as of September 30</b>	<b>COBRA</b>	<b>IUF</b>	<b>All Others</b>	<b>Total</b>
Assets				
Fund Balance with Treasury	\$ 729,957	\$ 159,119	\$ 12,193	\$ 901,269
Tax, Duties and Trade Receivables, Net	68,452	—	28	68,480
Other Assets	76,394	70,565	202	147,161
Total Assets	\$ 874,803	\$ 229,684	\$ 12,423	\$ 1,116,910
<b>Liabilities and Net Position for the Period Ended September 30</b>				
Liabilities	\$ 87,086	\$ 14	\$ 2,334	\$ 89,434
Unexpended Appropriations	—	—	—	—
Cumulative Results of Operations	787,717	229,670	10,089	1,027,476
Total Liabilities and Net Position	\$ 874,803	\$ 229,684	\$ 12,423	\$ 1,116,910
<b>Statement of Net Cost for the Period Ended September 30</b>				
Gross Cost	\$ 369,300	\$ 524,361	\$ 45,521	\$ 939,182
Less Earned Revenue	—	—	(1,936)	(1,936)
Net Cost of Operations	\$ 369,300	\$ 524,361	\$ 43,585	\$ 937,246
<b>Statement of Change in Net Position for the Period Ended September 30</b>				
Net Position Beginning of Period	\$ 798,750	\$ 280,437	\$ 15,455	\$ 1,094,642
Net Costs of Operations	(369,300)	(524,361)	(43,585)	(937,246)
Taxes and Other Non Exchange Revenue	1,808,332	575,188	38,268	2,421,788
Net Transfers In/Out	(1,450,065)	(101,594)	(49)	(1,551,708)
Change in Net Position	(11,033)	(50,767)	(5,366)	(67,166)
Net Position End of Period	\$ 787,717	\$ 229,670	\$ 10,089	\$ 1,027,476

# Notes to Financial Statements

Balance Sheet	2006			
	COBRA	IUF	All Others	Total
<b>Assets</b>				
Fund Balance with Treasury	\$ 761,175	\$ 192,814	\$ 15,439	\$ 969,428
Tax, Duties and Trade Receivables, Net	61,117	—	110	61,227
Other Assets	72,410	87,637	343	160,390
Total Assets	<u>\$ 894,702</u>	<u>\$ 280,451</u>	<u>\$ 15,892</u>	<u>\$ 1,191,045</u>
<b>Liabilities and Net Position</b>				
Liabilities	95,952	14	437	96,403
Unexpended Appropriations	—	—	—	—
Cumulative Results of Operations	798,750	280,437	15,455	1,094,642
Total Liabilities and Net Position	<u>\$ 894,702</u>	<u>\$ 280,451</u>	<u>\$ 15,892</u>	<u>\$ 1,191,045</u>
<b>Statement of Net Cost</b>				
Gross Cost	\$ 336,845	\$ 480,011	\$ 45,728	\$ 862,584
Less Earned Revenue	—	—	(1,670)	(1,670)
Net Cost of Operations	<u>\$ 336,845</u>	<u>\$ 480,011</u>	<u>\$ 44,058</u>	<u>\$ 860,914</u>
<b>Statement of Change in Net Position</b>				
Net Position Beginning of Period	\$ 797,236	\$ 239,091	\$ 21,374	\$ 1,057,701
Net Costs of Operations	(336,845)	(480,011)	(44,058)	(860,914)
Taxes and Other Non Exchange Revenue	1,704,342	624,884	38,090	2,367,316
Net Transfers In/Out	(1,365,983)	(103,527)	49	(1,469,461)
Change in Net Position	<u>1,514</u>	<u>41,346</u>	<u>(5,919)</u>	<u>36,941</u>
Net Position End of Period	<u>\$ 798,750</u>	<u>\$ 280,437</u>	<u>\$ 15,455</u>	<u>\$ 1,094,642</u>

## 19. Intragovernmental Costs and Exchange Revenue

Intragovernmental costs represent exchange transactions made between two reporting entities within the Federal Government and are presented separately from costs with the public (exchange transactions made between the reporting entity and a non-federal entity). Intragovernmental exchange revenue is disclosed separately from exchange revenue with the public. The criteria used for this classification requires that the intragovernmental expenses relate to the source of goods and services purchased by the reporting entity and not to the classification of related revenue. With “intragovernmental costs,” the buyer and

## Notes to Financial Statements

seller are both federal entities. If a federal entity purchases goods or services from another federal entity and sells them to the public, the exchange revenue would be classified as “with the public,” but the related costs would be classified as “intragovernmental.” The purpose of this classification is to enable the Federal Government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

The Consolidated Statement of Net Cost reflects intragovernmental and public cost and exchange revenue as summarized below for the year ended September 30, 2007 and 2006 (in thousands):

	<b>2007</b>	<b>2006</b>
<b>Border Security Inspections and Trade Facilitation at Ports of Entry</b>		
Intragovernmental costs	\$1,381,449	\$1,252,679
Public costs	3,758,826	3,440,900
<b>Total Border Security Inspections and Trade Facilitation at Ports of Entry Costs</b>	<b>5,140,275</b>	<b>4,693,579</b>
Intragovernmental earned revenue	(135,051)	(127,161)
Public earned revenue	(68,428)	(68,055)
<b>Total Border Security Inspections and Trade Facilitation at Ports of Entry Revenue</b>	<b>(203,479)</b>	<b>(195,216)</b>
<b>Border Security and Control Between Ports of Entry</b>		
Intragovernmental costs	764,479	600,639
Public costs	2,080,091	1,649,857
<b>Total Border Security and Control Between Ports of Entry Costs</b>	<b>2,844,570</b>	<b>2,250,496</b>
Intragovernmental earned revenue	(74,736)	(60,972)
Public earned revenue	(37,868)	(32,631)
<b>Total Border Security and Control Between Ports of Entry Revenue</b>	<b>(112,604)</b>	<b>(93,603)</b>
<b>Air and Marine Operations</b>		
Intragovernmental costs	99,236	93,649
Public costs	270,015	257,238
<b>Total Air and Marine Operations Costs</b>	<b>369,251</b>	<b>350,887</b>
Intragovernmental earned revenue	(9,701)	(9,506)
Public earned revenue	(4,916)	(5,088)
<b>Total Air and Marine Operations Revenue</b>	<b>(14,617)</b>	<b>(14,594)</b>
<b>Net Cost of Operations</b>	<b>\$8,023,396</b>	<b>\$6,991,549</b>

# Notes to Financial Statements

## 20. Sub-organization Program Costs/Program Costs by Segment

CBP is the unified border agency whose priority mission is the prevention of terrorism and terrorist weapons from entering the U.S. Effective FY 2007, CBP in conjunction with DHS changed the allocation of net cost to align solely with prevention. 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 agencies and foreign countries.

Operating costs are summarized in the Consolidated Statement of Net Cost by responsibility segment, as applicable to the reporting period. The net cost of operations is the gross (i.e., total) cost incurred by CBP, less any exchange (i.e., earned) revenue. A responsibility segment is the component that carries out a mission or major line of activity, and whose managers report directly to Departmental Management.

For the year ended September 30, 2007 (in thousands):

Schedule of Net Cost by Program and Responsibility Segment	2007				
	Prevention Dollars	Service Dollars	Combined Total	Intra-Entity Eliminations	Consolidated Total
<b>Border Security Inspections and Trade Facilitation at Ports of Entry (Note a)</b>					
Gross Costs:					
Passenger Processing	\$3,012,224	\$ —	\$3,012,224	\$385,696	\$2,626,528
Trade Compliance	2,162,401	—	2,162,401	276,882	1,885,519
Outbound	94,851	—	94,851	12,145	82,706
Anti-Terrorism	625,630	—	625,630	80,108	545,522
Total Gross Costs	5,895,106	—	5,895,106	754,831	5,140,275
Less: Earned Revenue	958,310	—	958,310	754,831	203,479
Net Program Costs	\$4,936,796	\$ —	\$4,936,796	\$ —	\$4,936,796
<b>Border Security and Control Between Ports of Entry (Note b)</b>					
Gross Costs	\$3,262,284	\$ —	\$3,262,284	\$417,714	\$2,844,570
Less: Earned Revenue	530,318	—	530,318	417,714	112,604
Net Program Costs	\$2,731,966	\$ —	\$2,731,966	\$ —	\$2,731,966
<b>Air and Marine Operations (Note c)</b>					
Gross Costs	\$ 423,474	—	\$ 423,474	\$ 54,223	\$ 369,251
Less: Earned Revenue	68,840	—	68,840	54,223	14,617
Net Program Costs	354,634	—	354,634	—	354,634
<b>Net Cost of Operations</b>	<b>\$8,023,396</b>	<b>\$ —</b>	<b>\$8,023,396</b>	<b>\$ —</b>	<b>\$8,023,396</b>

# Notes to Financial Statements

For the year ended September 30, 2006 (in thousands):

Schedule of Net Cost by Program and Responsibility Segment	2006				
	Prevention Dollars	Service Dollars	Combined Total	Intra-Entity Eliminations	Consolidated Total
<b>Border Security Inspections and Trade Facilitation at Ports of Entry (Note a)</b>					
Gross Costs:					
Passenger Processing	\$2,558,828	\$ 21,799	\$2,580,627	\$335,237	\$2,245,390
Trade Compliance	1,595,494	498,854	2,094,348	272,067	1,822,281
Outbound	96,417	—	96,417	12,525	83,892
Anti-Terrorism	622,939	—	622,939	80,923	542,016
Total Gross Costs	4,873,678	520,653	5,394,331	700,752	4,693,579
Less: Earned Revenue	809,491	86,477	895,968	700,752	195,216
Net Program Costs	\$4,064,187	\$434,176	\$4,498,363	\$ —	\$4,498,363
<b>Border Security and Control Between Ports of Entry (Note b)</b>					
Gross Costs	2,569,727	16,768	2,586,495	335,999	2,250,496
Less: Earned Revenue	426,817	2,785	429,602	335,999	93,603
Net Program Costs	\$2,142,910	\$ 13,983	\$2,156,893	\$ —	\$2,156,893
<b>Air and Marine Operations (Note c)</b>					
Gross Costs	403,275	—	403,275	52,388	350,887
Less: Earned Revenue	66,982	—	66,982	52,388	14,594
Net Program Costs	336,293	—	336,293	—	336,293
<b>Net Cost of Operations</b>	<b>\$6,543,390</b>	<b>\$448,159</b>	<b>\$6,991,549</b>	<b>\$ —</b>	<b>\$6,991,549</b>

Notes to Schedule:

**Note a:**

Cost of processing passengers (Customs, Immigration, Agriculture and land border)

- Compliance and Non-Compliance
- Non-Intrusive Technology
- Contraband Enforce Team
- Identify & Targeting
- Antiterrorism

Air Traffic Security Cost  
Travel Facilitation  
Seaport Security Cost  
Trade Rules Compliance

**Note b:**

Enforcement

- Patrol
  - Transportation
- Development and Implementation of the Secure Border Initiative

**Note c:**

Interdiction

General Investigative Activities

- Intelligence
- Smuggling

# Notes to Financial Statements

## 21. Non-Exchange Revenues and Transfers In/Out Without Reimbursement

Non-exchange Revenue represents amounts collected from user fees that CBP may retain and expend as authorized by law. Transfers In/Out Without Reimbursement are amounts of funds collected and transferred from CBP receipt accounts to expenditure accounts within CBP and to other federal agencies.

## 22. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

Apportionment categories are determined in accordance with the guidance provided in OMB Circular A-11, *Preparation, Submission and Execution of the Budget*. Category A represents resources apportioned for calendar quarters. Category B represents resources apportioned for other time periods; for activities, projects or objectives; or for any combination thereof (in thousands).

<b>FY Ended September 30, 2007</b>	<b>Apportionment Category A</b>	<b>Apportionment Category B</b>	<b>Exempt from Apportionment</b>	<b>Total</b>
Obligations Incurred—Direct	\$6,008,329	\$3,482,777	\$1,543,665	\$11,034,771
Obligations Incurred— Reimbursable	1,384,488	102,195	—	1,486,683
<b>Total Obligations Incurred</b>	<b>\$7,392,817</b>	<b>\$3,584,972</b>	<b>\$1,543,665</b>	<b>\$12,521,454</b>

<b>FY Ended September 30, 2006</b>	<b>Apportionment Category A</b>	<b>Apportionment Category B</b>	<b>Exempt from Apportionment</b>	<b>Total</b>
Obligations Incurred — Direct	\$5,284,687	\$2,851,108	\$ 896,577	\$ 9,032,372
Obligations Incurred — Reimbursable	1,343,115	(47,758)	—	1,295,357
<b>Total Obligations Incurred</b>	<b>\$6,627,802</b>	<b>\$2,803,350</b>	<b>\$ 896,577</b>	<b>\$10,327,729</b>

## 23. Appropriations

As of September 30, 2007 and 2006, the Combined Statement of Budgetary Resources consist of appropriations totaling \$11.2 and \$9.2 billion, respectively. This differs from the Consolidated Statement of Changes in Net Position as of September 30, 2007 and 2006, which consist of appropriations received totaling \$6.7 and \$5.4 billion, respectively. This difference is due to CBP's non-entity activity, which as of September 30, 2007 and 2006, consists of \$2 and \$1.4 billion, respectively, for Refund and Drawback activity as well as \$2.5 and \$2.4 billion, respectively, for user/inspection fees and subsidy activity which are not reported on the Consolidated Statement of Changes in Net Position.

Permanent indefinite appropriations refer to the appropriations that result from permanent public laws, which authorize CBP to retain certain receipts. The amount appropriated depends upon the amount of the receipts rather than on a specific amount. CBP has a permanent and indefinite appropriation, which is used to disburse tax and duty refunds and duty drawbacks. Although funded through appropriations, refund and drawback activity is, in most instances, reported as a custodial activity. Refunds are custodial revenue-related activity in that refunds are a direct result of importer overpayments of their duties, taxes and fees. Federal tax revenue received from taxpayers is not available for use in the operation of CBP and is not reported on the Consolidated Statement of Net Cost. Likewise, the refunds of overpayments are not available for use by CBP in its operations. Refunds and drawback disbursements totaled \$6.92 billion and \$1.16 billion for fiscal year ended September 30, 2007 and 2006, and are presented as a use of custodial revenue on the Consolidated Statement of Custodial Activity. The FY 2007 amount is higher than the FY 2006 amount due to the Canadian Softwood Lumber disbursements. This appropriation is not subject to budgetary ceilings established by Congress. CBP's refund payable at year-end is not subject to funding restrictions. Refund payment funding is recognized as appropriations are used.

### **24. Legal Arrangements Affecting the Use of Unobligated Balances**

Unobligated balances, whose period of availability has expired, are not available to fund new obligations. Expired unobligated balances are available to pay for current period adjustments to obligations incurred prior to expiration. For a fixed appropriation account, the balance can be carried forward for five fiscal years after the period of availability ends. For a no-year account, the unobligated balance is carried forward indefinitely until (1) specifically rescinded by law; or (2) the head of the agency concerned or the President determines that the purposes for which the appropriation was made have been carried out and disbursements have not been made against the appropriation for two consecutive years.

Included in the cumulative results of operations for special funds is \$1.1 billion at September 30, 2007, that represents CBP's authority to assess and collect user fees relating to merchandise and passenger processing, to assess and collect fees associated with the services performed at certain small airports or other facilities, retain amounts needed to offset costs associated with collecting duties, and taxes and fees for the government of Puerto Rico. These special fund balances are restricted by law and in their use to offset specific costs incurred by CBP. Part of the passenger fees in the COBRA User Fee Account, totaling approximately \$758 million, as of September 30, 2007 is restricted by law in its use to offset specific costs incurred by CBP and are available to the extent provided in Department Appropriations Acts.

The entity trust fund balances result from CBP's 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 Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee.

# Notes to Financial Statements

## 25. Explanation of Differences Between the SBR and the Budget of the U.S. Government

The table below documents the material differences between the FY 2006 Combined Statement of Budgetary Resources and the actual amounts reported for FY 2006 in the Budget of the United States Government. Since the FY 2007 financial statements are reported prior to the Budget of the United States Government, CBP is reporting for FY 2006 only. Typically, the Budget of the United States Government with the FY 2007 actual data is published in February of the subsequent year. Once published, the FY 2007 actual data will be available at OMB website, [www.whitehouse.gov/omb](http://www.whitehouse.gov/omb). (In thousands.)

2006	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	\$12,623,272	\$10,327,729	\$2,347,944	\$5,798,109
Differences:				
Expired Appropriation not included in President's Budget	(173,907)	(117,384)	—	—
Refunds & Drawbacks not included in President's Budget	(891,009)	(890,680)	—	(890,721)
Injured Domestic Industries not included in President's Budget (20X5688)	(792,179)	(226,052)	—	(226,052)
Offsetting Receipts included in Treasury Annual Report but not in column C above	—	—	86,103	2,347,944
Miscellaneous	(1,000)	2,000	1,000	—
Total Differences	(1,858,095)	(1,232,116)	87,103	1,231,171
Budget of the U.S. Government	\$10,765,177	\$ 9,095,613	\$2,435,047	\$7,029,280

## 26. Undelivered Orders at the end of Period

An undelivered order exists when a valid obligation has occurred and funds have been reserved, but the goods or services have not been delivered and have not prepaid. Undelivered orders for the period ended September 30, 2007 and 2006 (in thousands):

	2007	2006
Unpaid	\$3,012,252	\$2,522,099
Upward/Down Adjustment of Prior Period	(176,264)	(166,830)
<b>Total Undelivered Orders at the end of Period</b>	<b>\$2,835,988</b>	<b>\$2,355,269</b>

## 27. Custodial Revenues

The Consolidated Statement of Custodial Activity has been prepared from CBP accounting records in conformity with generally accepted accounting principles (GAAP). Custodial Revenue consists 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. Primarily, revenue collections result from current fiscal year activity.

Disbursements from the Refunds and Drawback account for the fiscal year ended September 30, 2007 and 2006 (in thousands):

	<b>2007</b>	<b>2006</b>
Refunds	\$6,296,311	\$ 646,035
Drawback	625,723	514,016
<b>Total</b>	<b>\$6,922,034</b>	<b>\$1,160,051</b>

Amounts refunded during FY 2007 identified by entry year consist of the following (in thousands):

<b>Entry Year</b>	<b>2007</b>
2007	\$5,531,472
2006	221,733
2005	326,968
2004	363,025
Prior Years	478,836
<b>Total</b>	<b>\$6,922,034</b>

<b>Entry Year</b>	<b>2006</b>
2006	\$ 596,166
2005	142,713
2004	89,827
2003	38,827
Prior Years	292,518
<b>Total</b>	<b>\$1,160,051</b>

# Notes to Financial Statements

The total amounts of antidumping and countervailing duties vary from year to year, depending on decisions from Department of Commerce. Antidumping and countervailing duty refunds (included in total refunds presented above) and associated interest refunded for the fiscal years ended September 30, 2007 and 2006, consisted of the following (in thousands):

	<u>2007</u>	<u>2006</u>
Antidumping and countervailing duty refunds	\$5,033,930	\$381,406
Interest	654,672	85,613
<b>Total</b>	<u>\$5,688,602</u>	<u>\$467,019</u>

## 28. Reconciliation of Net Cost of Operations to Budget

The following table presents CBP's reconciliation of net cost of operations to budgetary accounts for the years ended September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
<b>Resources Used to Finance Activities:</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$12,521,454	\$10,327,729
Less: Spending Authority from Offsetting Collections and Recoveries	1,659,029	1,564,040
Obligations Net of Offsetting Collections and Recoveries	10,862,425	8,763,689
Less: Offsetting Receipts	2,360,600	2,347,944
Net Obligations	<u>8,501,825</u>	<u>6,415,745</u>
<b>Other Resources</b>		
Donations and Forfeiture of Property	3,618	6,497
Transfers in/out Without Reimbursement	3,509	40,928
Imputed Financing from Costs Absorbed by Others	305,758	251,074
Net Other Resources Used to Finance Activities	<u>312,885</u>	<u>298,499</u>
<b>Total Resources Used to Finance Activities</b>	\$ 8,814,710	\$ 6,714,244

**(Continued)**

## Notes to Financial Statements

	2007	2006
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered, but not yet Provided	\$ 526,996	\$ 577,971
Resources that Fund Expenses Recognized in Prior Periods	1,503	88,339
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations	—	—
Other	(2,358,664)	(2,346,273)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	1,049,537	504,401
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	2,028,173	1,247,955
<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	\$ 1,247,545	\$ 72,393
<b>Total Resources Used to Finance the Net Cost of Operations</b>	\$ 7,567,165	\$ 6,641,851
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
<b>Components Requiring or Generating Resources in Future Periods</b>		
Increase in Annual Leave Liability	\$ 21,892	\$ 21,099
Other	73,556	31,514
Total Components of Net Cost of Operations that will Require or Generate	\$ 95,448	\$ 52,613
<b>Components not Requiring or Generating Resources</b>		
Depreciation and Amortization	\$ 344,639	\$ 319,630
Revaluation of Assets or Liabilities	12,035	173
Other	4,109	(22,718)
Total Components of Net Cost of Operations that will not Require or Generate	\$ 360,783	\$ 297,085
<b>Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b>	\$ 456,231	\$ 349,698
<b>Net Cost of Operations</b>	\$ 8,023,396	\$ 6,991,549

# Required Supplementary Information

## 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 has been 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. An assessment of “good” means the facility/equipment condition is above minimum standards, but requires preventative maintenance or normal repairs to maintain the design intent of the building or equipment so that it continues to provide acceptable service and achieves the expected useful life. Deferred maintenance on property, plant and equipment as measured by condition assessment survey, is comprised of (in thousands):

	2007	
	Condition Assessment	Deferred Maintenance
Building and Structures	Poor	\$4,395
Vehicles	—	—
Stewardship/Heritage Assets (multi-use)	—	—
Totals		<u>\$4,395</u>

	2006	
	Condition Assessment	Deferred Maintenance
Building and Structures	Fair to Good	\$5,509
Vehicles	Fair to Good	1
Stewardship/Heritage Assets (multi-use)	Fair to Good	1,080
Totals		<u>\$6,590</u>

### Statement of Budgetary Resources (SBR)

The total Budgetary Resources of \$15.4 billion for FY 2007 includes new budget authority, unobligated balances at the beginning of the year and transferred in/out, spending authority from offsetting collections, recoveries of prior year obligations and adjustments.

# Required Supplementary Information

## Customs and Border Protection Required Supplementary Information (continued) (Unaudited)

Schedule of Budgetary Resources for September 30, 2007 and 2006 are summarized below:

### Schedule of Budgetary Resources by Major Fund Type

As of September 30, 2007 (in thousands):

	Appropriated Funds	Trust Funds	Other Funds	Totals
<b>Budgetary Resources</b>				
Unobligated balances brought forward, October 1	\$ 822,285	\$ 255	\$1,473,003	\$ 2,295,543
Recoveries of Prior Year Obligations	189,493	1,631	7,381	198,505
Budget Authority:				
Appropriations	6,733,265	4,222	4,452,920	11,190,407
Spending Authority from Offsetting Collections:				
Earned				
Collected	1,495,566	10	18,479	1,514,055
Change in Receivable from Federal Sources	(33,527)	(10)	(423)	(33,960)
Change in Unfilled Customer Orders:				
Advance Received	(2,401)	—	—	(2,401)
Without Advance from Federal Sources	(19,990)	—	(206)	(20,196)
Anticipated for Rest of Year	—	—	—	—
Expenditure Transfers from Trust Funds	3,026	—	—	3,026
Subtotal	8,175,939	4,222	4,470,770	12,650,931
Non-Expenditure Transfers from Trust Funds	1,826,274	3,026	(1,455,396)	373,904
Permanently Not Available	(29,075)	—	(73,449)	(102,524)
<b>Total Budgetary Resources</b>	<b>\$10,984,916</b>	<b>\$9,134</b>	<b>\$4,422,309</b>	<b>\$15,416,359</b>

**(Continued)**

# Required Supplementary Information

## Customs and Border Protection Required Supplementary Information (continued) (Unaudited)

	Appropriated Funds	Trust Funds	Other Funds	Totals
<b>Status of Budgetary Resources</b>				
Obligations Incurred:				
Direct	\$8,052,517	\$8,721	\$2,973,533	\$11,034,771
Reimbursable	1,466,900	—	19,783	1,486,683
Total Obligations Incurred	9,519,417	8,721	2,993,316	12,521,454
Unobligated Balance:				
Apportioned	14,930	242	1,469	16,641
Exempt from Apportionment	—	—	—	—
Subtotal	14,930	242	1,469	16,641
Unobligated Balance Not Available	1,450,569	171	1,427,524	2,878,264
<b>Total Status of Budgetary Resources</b>	<b>\$10,984,916</b>	<b>\$9,134</b>	<b>\$4,422,309</b>	<b>\$15,416,359</b>
<b>Change in Obligated Balances</b>				
Obligated Balance, Net				
Unpaid Obligations Brought Forward, October 1	\$2,960,284	\$8,406	\$ 98,484	\$ 3,067,174
Less: Uncollected Customer Payments from Federal Sources, Brought Forward from October 1	(372,998)	(97)	(1,846)	(374,941)
Total Unpaid Obligated Balance, Net	2,587,286	8,309	96,638	2,692,233
Obligations Incurred, Net	9,519,417	8,721	2,993,316	12,521,454
Gross Outlays	(8,342,015)	(9,918)	(3,002,468)	(11,354,401)
Obligated Balance Transferred, Net				
Actual Transfers, Unpaid Obligations	34,008	—	—	34,008
Recoveries of Prior Year Unpaid Obligations	(189,493)	(1,631)	(7,381)	(198,505)
Change In Uncollected Customer Pymts from Federal Sources	53,517	10	629	54,156
Obligated Balance, Net End Of Period				
Unpaid Obligations	3,982,781	4,998	81,949	4,069,728
Less: Uncollected Customer Pymts from Federal Sources	(319,481)	(88)	(1,216)	(320,785)
Total, Unpaid Obligated Balance, Net, End of Period	3,663,300	4,910	80,733	3,748,943
<b>Net Outlays</b>				
Gross Outlays	8,342,015	9,918	3,002,468	11,354,401
Less: Offsetting Collections	(1,496,191)	(10)	(18,479)	(1,514,680)
Less: Distributed Offsetting Receipts	—	—	(2,360,600)	(2,360,600)
<b>Total Net Outlays</b>	<b>\$6,845,824</b>	<b>\$9,908</b>	<b>\$ 623,389</b>	<b>\$ 7,479,121</b>

# Required Supplementary Information

## Customs and Border Protection Required Supplementary Information (continued) (Unaudited)

### Schedule of Budgetary Resources by Major Fund Type

As of September 30, 2006 (in thousands):

	Appropriated Funds	Trust Funds	Other Funds	Totals
<b>Budgetary Resources</b>				
Unobligated balances brought forward, October 1	\$ 514,175	\$ 361	\$1,209,708	\$ 1,724,244
Recoveries of Prior Year Obligations	201,280	896	15,026	217,202
Budget Authority:				
Appropriations	5,440,771	5,894	3,807,136	9,253,801
Spending Authority from Offsetting Collections:				
Earned				
Collected	1,273,412	—	17,114	1,290,526
Change in Receivable From Federal Sources	22,788	10	(12,949)	9,849
Change in Unfilled Customer Orders:				
Advance Received	1,400	—	—	1,400
Without Advance from Federal Sources	41,599	39	425	42,063
Expenditure Transfers from Trust Funds	3,000	—	—	3,000
Subtotal	6,782,970	5,943	3,811,726	10,600,639
Non-Expenditure Transfers from Trust Funds	1,612,177	3,000	(1,371,314)	243,863
Permanently Not Available	(79,685)	—	(82,991)	(162,676)
<b>Total Budgetary Resources</b>	<b>\$9,030,917</b>	<b>\$10,200</b>	<b>\$3,582,155</b>	<b>\$12,623,272</b>
<b>Status of Budgetary Resources</b>				
Obligations Incurred:				
Direct	\$6,929,278	\$ 9,945	\$2,093,149	\$ 9,032,372
Reimbursable	1,279,354	—	16,003	1,295,357
Total Obligations Incurred	8,208,632	9,945	2,109,152	10,327,729
Unobligated Balance:				
Apportioned	279,651	—	13,844	293,495
Exempt from Apportionment	—	—	328	328
Subtotal	279,651	—	14,172	293,823
Unobligated Balance Not Available	542,634	255	1,458,831	2,001,720
<b>Total Status of Budgetary Resources</b>	<b>\$9,030,917</b>	<b>\$10,200</b>	<b>\$3,582,155</b>	<b>\$12,623,272</b>

(Continued)

# Required Supplementary Information

## Customs and Border Protection Required Supplementary Information (continued) (Unaudited)

	Appropriated Funds	Trust Funds	Other Funds	Totals
<b>Change in Obligated Balances</b>				
Obligated Balance, Net				
Unpaid Obligations Brought Forward, October 1	\$2,294,870	\$11,122	\$ 91,634	\$ 2,397,626
Less: Uncollected Customer Payments from Federal Sources, Brought Forward from October 1	(308,612)	(48)	(14,369)	(323,029)
Total Unpaid Obligated Balance, Net	1,986,258	11,074	77,265	2,074,597
Obligations Incurred, Net	8,208,632	9,945	2,109,152	10,327,729
Gross Outlays	(7,341,938)	(11,765)	(2,087,276)	(9,440,979)
Recoveries of Prior Year Unpaid Obligations	(201,280)	(896)	(15,026)	(217,202)
Change In Uncollected Customer Pymts from Federal Sources	(64,386)	(49)	12,523	(51,912)
Obligated Balance, Net End of Period				
Unpaid Obligations	2,960,284	8,406	98,484	3,067,174
Less: Uncollected Customer Pymts from Federal Sources	(372,998)	(97)	(1,846)	(374,941)
Total, Unpaid Obligated Balance, Net, End of Period	2,587,286	8,309	96,638	2,692,233
<b>Net Outlays</b>				
Gross Outlays	7,341,938	11,765	2,087,276	9,440,979
Less: Offsetting Collections	(1,277,813)	—	(17,113)	(1,294,926)
Less: Distributed Offsetting Receipts	—	—	(2,347,944)	(2,347,944)
<b>Total Net Outlays</b>	<b>\$6,064,125</b>	<b>\$11,765</b>	<b>\$ (277,781)</b>	<b>\$ 5,798,109</b>

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

### Custodial Activity

Substantially all 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 (less than one percent of revenues collected) directly to other federal agencies, the Governments of Puerto Rico and the U.S. Virgin Islands. Refunds of revenues collected from import/export activities 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.

CBP reviews selected documents to ensure all duties, taxes and fees owed to the Federal government are paid and to ensure regulations are followed. If CBP believes duties, taxes, fees, fines or penalties are due in addition to estimated amounts previously paid by the importer/violator, the importer/violator is notified of the additional amount due. CBP regulations allow the importer/violator to file a protest on the additional amount due for review by the Port Director. A protest allows the importer/violator the opportunity to submit additional documentation supporting their claim of a lower amount due or to cancel the additional amount due in its entirety. Work in progress will continue until all protest options have expired or an agreement is reached. During this protest period, CBP does not have a legal right to importer/violator's assets, and consequently CBP recognizes accounts receivable only when the protest period has expired or an agreement is reached. For FY 2007 and 2006, CBP had legal right to collect \$1.94 and \$1.75 billion of receivables. In addition, there was \$2.7 and \$2.4 billion representing records still in the protest phase for FY 2007 and 2006 respectively. CBP recognized as write-offs \$184 and \$204 million of assessments that the Department has statutory authority to collect at September 30, 2007 and 2006, but has no future collection potential. Most of this amount represents fines, penalties and interest.

### Revenue Gap

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 it 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 entry summary reviews conducted throughout the year. For FY 2006 and 2005, the actual revenue gap was \$450 and \$470 million respectively. CBP calculated the preliminary FY 2007 and 2006 revenue gap to be \$374 and \$314 million respectively. The projected over-collection and under-collection amounts due to noncompliance for FY 2007 were \$61 million and \$435 million, respectively. The projected over-collection and under-collection amounts due to noncompliance for FY 2006 were \$128 million and \$442 million, respectively. The preliminary overall trade compliance rate for FY 2007 and 2006 is 98.1 and 96.6 percent respectively. 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 2007 will be issued in January 2008.

## Other Accompanying Information

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

#### Petitioned and Protested Schedule

An analysis of the changes in petitioned and protested assessed amounts during FY 2007 and 2006 is as follows (in thousands):

#### 2007

	Balance October 1	Additional Assessments	Protest in Favor of Debtor	Net Reduction Administrative Process	Additional Receivable	Balance September 30
Duties	\$ 62,743	\$ 245,224	\$ (7,449)	\$ (62,638)	\$ (17,270)	\$ 220,610
Taxes	523	1,087	(31)	(1,048)	(483)	48
Fees	374	4,637	(98)	(1,019)	(116)	3,778
Fines/Penalties	1,970,379	1,614,214	(1,792,179)	(92)	284,667	2,076,989
Interest	99,252	124,867	(2,582)	(44,662)	(53,767)	123,108
Antidumping/ Countervailing Duty	256,311	509,125	(15,920)	(153,146)	(294,240)	302,130
Refunds & Drawback	10,687	22,537	(1,629)	(20,140)	(786)	10,669
Totals	\$2,400,269	2,521,691	\$(1,819,888)	\$(282,745)	\$(81,995)	\$2,737,332

#### 2006

	Balance October 1	Additional Assessments	Protest in Favor of Debtor	Net Reduction Administrative Process	Additional Receivable	Balance September 30
Duties	\$ 60,190	\$ 82,779	\$ (8,776)	\$ (59,307)	\$ (12,143)	\$ 62,743
Taxes	648	637	(19)	(498)	(245)	523
Fees	346	1,871	(122)	(1,620)	(101)	374
Fines/Penalties	1,461,138	1,648,233	(636,309)	(59)	(502,624)	1,970,379
Interest	95,218	76,961	(15,772)	(29,803)	(27,352)	99,252
Antidumping/ Countervailing Duty	228,300	235,230	(22,591)	(60,110)	(124,518)	256,311
Refunds & Drawback	9,588	9,882	(1,040)	(6,717)	(1,026)	10,687
Totals	\$1,855,428	\$2,055,593	\$(684,629)	\$(158,114)	\$(668,009)	\$2,400,269

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

## Other Accompanying Information

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

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.

#### Entity Receivables

An aging of entity receivables as of September 30, 2007 and 2006 is as follows (in thousands):

<b>2007</b>	<b>Aged Period</b>					<b>Total</b>
	<b>&lt;=90 days</b>	<b>91 days–1 year</b>	<b>1–2 years</b>	<b>2–3 years</b>	<b>3+ years</b>	
Reimbursable services	\$ 528	\$ 4,265	\$ 723	\$ 696	\$ 58	\$ 6,270
User fees	139,297	7,650	2,115	3,371	14,661	167,094
Gross receivables	139,825	11,915	2,838	4,067	14,719	173,364
Less uncollectible amounts	(1,751)	(1,326)	(2,533)	(3,179)	(13,173)	(21,962)
<b>Net receivables</b>	<b>\$138,074</b>	<b>\$10,589</b>	<b>\$ 305</b>	<b>\$ 888</b>	<b>\$ 1,546</b>	<b>\$151,402</b>

<b>2006</b>	<b>Aged Period</b>					<b>Total</b>
	<b>&lt;=90 days</b>	<b>91 days–1 year</b>	<b>1–2 years</b>	<b>2–3 years</b>	<b>3+ years</b>	
Reimbursable services	\$ 386	\$ 447	\$ 1,149	\$ 710	\$ 194	\$ 2,886
User fees	147,806	2,820	4,573	10,682	9,655	175,536
Gross receivables	148,192	3,267	5,722	11,392	9,849	178,422
Less uncollectible amounts	(442)	(41)	(3,295)	(3,375)	(8,562)	(15,715)
<b>Net receivables</b>	<b>\$147,750</b>	<b>\$ 3,226</b>	<b>\$ 2,427</b>	<b>\$ 8,017</b>	<b>\$ 1,287</b>	<b>\$162,707</b>

## Other Accompanying Information

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

#### Non-Entity Receivables

An analysis of the changes in accounts receivable during FY 2007 and 2006 is as follows (in thousands):

#### 2007

Receivable Category	Balance October 1	Receivables Recorded During the Fiscal Year	Collections	Write-offs	Adjustments	Balance September 30
Duties	\$ 1,553,714	\$23,419,661	\$(22,831,012)	\$ (2,349)	\$ (491,163)	\$ 1,648,851
Excise Taxes	99,178	2,653,498	(2,669,793)	(95)	43,964	126,752
Fees	120,041	2,246,723	(2,235,523)	(8)	1,219	132,452
Fines/penalties	1,120,769	11,851,765	(60,139)	(174,345)	(11,622,405)	1,115,645
Interest	164,589	139,307	(38,855)	(2,013)	(72,690)	190,338
Antidumping/ Countervailing Duty	260,929	911,307	(532,320)	(4,951)	(323,830)	311,135
Refunds/drawback	2,077	27,399	(25,301)	(3)	(2,110)	2,062
<b>Totals</b>	<b>\$3,321,297</b>	<b>\$41,249,660</b>	<b>\$(28,392,943)</b>	<b>\$(183,764)</b>	<b>\$(12,467,015)</b>	<b>\$ 3,527,235</b>
Less uncollectible amounts	(1,566,675)					(1,590,361)
<b>Net receivables</b>	<b>\$ 1,754,622</b>					<b>\$ 1,936,874</b>

#### 2006

Receivable Category	Balance October 1	Receivables Recorded During the Fiscal Year	Collections	Write-offs	Adjustments	Balance September 30
Duties	\$ 1,142,830	\$24,784,777	\$(24,097,216)	\$ (1,065)	\$ (275,612)	\$ 1,553,714
Excise Taxes	87,925	2,796,560	(2,788,384)	(314)	3,391	99,178
Fees	84,533	2,413,366	(2,357,234)	(5)	(20,619)	120,041
Fines/penalties	1,033,688	1,932,068	(56,510)	(189,253)	(1,599,224)	1,120,769
Interest	120,983	91,512	(34,289)	(4,128)	(9,489)	164,589
Antidumping/ Countervailing Duty	240,494	1,465,289	(1,343,339)	(8,910)	(92,605)	260,929
Refunds/drawback	1,609	22,935	(20,285)	(18)	(2,164)	2,077
<b>Totals</b>	<b>\$ 2,712,062</b>	<b>\$33,506,507</b>	<b>\$(30,697,257)</b>	<b>\$(203,693)</b>	<b>\$(1,996,322)</b>	<b>\$ 3,321,297</b>
Less uncollectible amounts	(1,311,989)					(1,566,675)
<b>Net receivables</b>	<b>\$ 1,400,073</b>					<b>\$ 1,754,622</b>

## Other Accompanying Information

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

An aging of non-entity Intragovernmental receivables as of September 30, 2007 and 2006 is as follows (in thousands):

<b>2007</b>	<b>Aged Period</b>					<b>Total</b>
	<b>&lt;=90 days</b>	<b>91 days–1 year</b>	<b>1–2 years</b>	<b>2–3 years</b>	<b>3+ years</b>	
Duties	\$1,527,733	\$ 7,043	\$ 13,996	\$ 17,639	\$ 82,440	\$ 1,648,851
Excise taxes	120,865	28	39	5	5,815	126,752
User fees	117,524	82	14,578	23	245	132,452
Fines/penalties	170,851	77,604	189,619	319,264	358,307	1,115,645
Interest	1	1,854	30,516	4,968	152,999	190,338
Antidumping/ Countervailing Duty	46,589	28,642	48,917	37,980	149,007	311,135
Refunds and drawback	2	368	21	138	1,533	2,062
Gross receivables	1,983,565	115,621	297,686	380,017	750,346	3,527,235
Less uncollectible amounts	(167,657)	(103,733)	(256,898)	(352,490)	(709,583)	(1,590,361)
<b>Net receivables</b>	<b>\$1,815,908</b>	<b>\$ 11,888</b>	<b>\$ 40,788</b>	<b>\$ 27,527</b>	<b>\$ 40,763</b>	<b>\$ 1,936,874</b>

<b>2006</b>	<b>Aged Period</b>					<b>Total</b>
	<b>&lt;=90 days</b>	<b>91 days–1 year</b>	<b>1–2 years</b>	<b>2–3 years</b>	<b>3+ years</b>	
Duties	\$1,419,582	\$ 22,674	\$ 4,201	\$ 15,619	\$ 91,638	\$ 1,553,714
Excise taxes	93,117	67	5	5,691	298	99,178
User fees	106,029	13,648	53	69	242	120,041
Fines/penalties	106,411	189,664	369,503	238,469	216,722	1,120,769
Interest	3	8,585	9,848	33,721	112,432	164,589
Antidumping/ Countervailing Duty	46,864	20,175	34,652	94,342	64,896	260,929
Refunds and drawback	2	185	161	1	1,728	2,077
Gross receivables	1,772,008	254,998	418,423	387,912	487,956	3,321,297
Less uncollectible amounts	(106,940)	(234,061)	(398,410)	(364,721)	(462,543)	(1,566,675)
<b>Net receivables</b>	<b>\$1,665,068</b>	<b>\$ 20,937</b>	<b>\$ 20,013</b>	<b>\$ 23,191</b>	<b>\$ 25,413</b>	<b>\$ 1,754,622</b>

## Other Accompanying Information

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

#### CBP Collections by Category

(Dollars in thousands)

Duties	2003	2004	2005	2006	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Consumption entries	\$20,331,692	\$21,012,275	\$23,213,476	\$24,787,051	\$26,477,180
Warehouse withdrawals	116,803	115,512	107,477	90,832	80,858
Mail entries	3,961	3,175	2,687	2,696	4,015
Passenger baggage entries	4,381	4,551	3,985	4,386	4,528
Crew baggage entries	25	17	11	9	9
Military baggage entries	6	4	2	2	1
Informal entries	49,616	53,612	55,680	57,415	56,026
Vessel repair entries	12,213	36,033	38,687	15,742	22,938
Other duties	82,728	54,433	44,552	37,853	57,122
<b>Total Duties</b>	<b>20,601,425</b>	<b>21,279,612</b>	<b>23,466,557</b>	<b>24,995,986</b>	<b>26,702,677</b>
<b>Miscellaneous</b>					
Violations of CBP law	54,407	52,159	54,227	49,797	56,434
Testing, inspecting & grading	62	54	56	46	34
Miscellaneous taxes	41,186	17,391	18,659	19,803	19,726
USDA collections	74,520	77,410	91,070	94,359	115,168
Harbor maintenance fee	757,882	869,522	1,047,843	1,206,414	1,261,681
Fees	4,258	5,195	5,419	7,107	6,695
User fee account	1,322,756	1,464,138	1,600,365	1,702,043	2,436,087
Unclaimed funds	897	1,081	1,124	991	479
Recoveries	6	53	3	2	2
Interest	12,711	9,892	9,760	8,604	13,229
Other CBP receipts	5,199	8,663	9,645	17,246	17,382
<b>Total Miscellaneous</b>	<b>2,273,884</b>	<b>2,505,558</b>	<b>2,838,171</b>	<b>3,106,412</b>	<b>3,926,917</b>
<b>Internal Revenue Taxes</b>	<b>2,092,276</b>	<b>2,205,744</b>	<b>2,255,482</b>	<b>2,345,992</b>	<b>2,537,098</b>
<b>Total Collections</b>	<b>\$24,967,585</b>	<b>\$25,990,914</b>	<b>\$28,560,210</b>	<b>\$30,448,390</b>	<b>\$33,166,692</b>

These schedules will not equal amounts reported on the Consolidated Statement of Custodial Activity due to certain deposit fund collections being reported on the Consolidated Balance Sheet, timing differences between the collections report and general ledger postings, and other adjustments.

## Other Accompanying Information

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

#### CBP Collections by Major Processing Port Locations (Dollars in thousands)

	2003	2004	2005	2006	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Boston	\$ 426,545	\$ 440,158	\$ 457,696	\$ 478,550	\$ 490,841
Buffalo-Niagara Falls	166,428	181,876	201,428	210,888	211,699
Ogdensburg	87,237	102,490	120,864	141,628	155,739
Portland, Maine	49,879	54,311	59,397	57,673	59,000
Providence	60,692	67,787	74,624	83,238	92,454
St. Albans	34,473	41,129	47,311	44,687	42,897
Baltimore	558,733	548,892	584,537	584,719	586,224
Philadelphia	526,844	549,459	586,956	639,201	650,157
Newark	3,851,645	3,961,215	4,179,939	4,362,201	4,552,031
JFK Airport	1,291,671	1,274,989	1,300,376	1,220,472	1,234,035
Charleston	807,133	906,318	1,145,999	1,175,442	1,030,435
Miami	819,933	844,143	798,307	752,711	733,596
San Juan	99,920	98,709	15,381	123,132	110,913
St. Thomas	10,429	11,949	113,244	14,819	16,074
Savannah	956,698	958,250	1,108,911	1,265,007	1,438,061
Tampa	416,743	390,533	409,229	473,650	506,870
Wilmington	263,549	272,646	267,769	290,312	314,993
Norfolk	553,719	563,558	629,274	674,041	685,494
NFC Indianapolis/ Washington	595,012	702,528	703,182	914,086	1,518,378
Mobile	105,512	108,809	125,715	157,920	142,869
New Orleans	847,966	855,041	885,110	936,744	1,055,211
Dallas/Ft Worth	311,226	335,763	378,052	418,128	444,678
El Paso	93,057	112,521	126,113	146,472	196,930
Houston	518,039	497,180	611,527	773,047	805,245
Laredo	301,332	307,842	337,921	370,216	395,215
Port Arthur	32,161	32,613	35,092	28,144	32,604
Nogales	97,051	92,216	82,636	77,832	82,999
Los Angeles	5,589,441	5,982,568	6,788,238	7,258,249	8,138,181
San Diego	226,881	230,158	237,419	259,000	303,717
Anchorage	85,086	101,446	84,913	103,998	110,296
Honolulu	41,255	45,898	42,089	39,670	39,955

## Other Accompanying Information

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

#### CBP Collections by Major Processing Port Locations (continued)

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Portland	336,487	341,904	369,471	395,707	454,523
San Francisco	707,208	774,722	800,687	945,986	1,084,934
Seattle	818,627	816,870	1,143,720	1,157,762	1,274,972
Chicago	1,261,818	1,299,606	1,412,668	1,436,691	1,560,159
Cleveland	1,001,462	1,009,197	1,114,677	1,245,447	1,385,583
Detroit	433,890	487,286	552,711	546,870	538,879
Milwaukee	36,656	32,437	32,630	33,230	36,056
Minneapolis	119,441	123,082	132,869	168,568	180,724
Pembina	12,990	14,256	16,434	17,631	18,982
St. Louis	305,061	293,594	304,816	271,647	287,356
Great Falls	107,655	124,965	140,278	152,974	166,733
<b>Total Revenues Collected</b>	<u>\$24,967,585</u>	<u>\$25,990,914</u>	<u>\$28,560,210</u>	<u>\$30,448,390</u>	<u>\$33,166,692</u>

# Auditor Reports

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## **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 November 2, 2007, and the agency's progress addressing these challenges are addressed at the DHS consolidated level and are incorporated into the DHS Fiscal Year 2007 PAR.

## **Independent Auditor's Report**

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

# Independent Auditor's Report

Office of Inspector General

U.S. Department of Homeland Security  
Washington, DC 20528



## Homeland Security

NOV 30 2007

MEMORANDUM FOR: W. Ralph Basham  
Commissioner  
U.S. Customs and Border Protection

FROM:   
Richard L. Skinner  
Inspector General

SUBJECT: *Independent Auditor's Report on CBP's FY 2007 Financial Statements  
Revised*

The attached report presents the results of Customs and Border Protection's (CBP) financial statement audits for fiscal years (FY) 2007 and 2006. These audits were required by the *Chief Financial Officers Act of 1990*. This report is incorporated in *CBP's FY 2007 Annual Financial Report*. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audits.

KPMG concluded that CBP's consolidated financial statements, as of and for the years ended September 30, 2007 and 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. As a result, the FY 2007 Independent Auditors' Report discusses three areas identified as significant deficiencies, the first two of which are considered to be material. In addition, two instances of noncompliance with laws and regulations are detailed below.

### Significant Deficiencies

1. Drawback of Duties, Taxes, and Fees
2. Information Technology
3. Entry Process
  - Compliance Measurement Program
  - Bonded Warehouse and Foreign Trade Zones
  - In-Bond Program
  - Continued Dumping and Subsidy Offset Act of 2000 (CDSOA) Refunds

### Non-compliance with Laws and Regulations

- A. Federal Information Security Management Act (Electronic Government Act of 2002)
- B. Federal Financial Management Improvement Act of 1996 (FFMIA)

# Independent Auditor's Report

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KPMG is responsible for the attached independent auditor's report, dated November 13, 2007, and the conclusions expressed in the report. We do not express opinions on financial statements or internal control or provide conclusions on compliance with laws and regulations.

Consistent with our responsibility under the Inspector General Act, we are providing copies of this report to appropriate congressional committees with oversight of and appropriation responsibilities for the Department of Homeland Security and CBP. In addition, we will post a copy of the report on our public website.

We request that CBP's chief financial officer provide us with a corrective action plan that demonstrates CBP's progress in addressing the report's recommendations.

We appreciate the cooperation extended to the auditors by the department's financial management offices. Should you have any questions, please call me, or your staff may contact Anne Richards, Assistant Inspector General for Audits, at 202-254-4100.

Attachment

**DEPARTMENT OF HOMELAND SECURITY  
Office of Inspector General**

**U.S. Customs and Border Protection's  
FY 2007 Internal Controls**



**OIG-08-15**

**November 2007**

# Independent Auditor's Report

*Office of Inspector General*

**U.S. Department of Homeland Security**  
Washington, DC 20528



**Homeland  
Security**

NOV 27 2007

## Preface

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

This report addresses the strengths and weaknesses of the U.S. Customs and Border Protection's (CBP) FY 2007 Internal Controls. It is based on interviews with employees and officials of relevant agencies and institutions, direct observations, and a review of applicable documents.

The recommendations herein have been developed to the best knowledge available to our office, and have been discussed in draft with those responsible for implementation. It is our hope that this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in cursive script that reads "Richard L. Skinner".

Richard L. Skinner  
Inspector General

# 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  
U.S. Customs and Border Protection:

We have audited the accompanying consolidated balance sheets of the U.S. Department of Homeland Security's (DHS) Customs and Border Protection (CBP) as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2007 audit, we also considered CBP's internal controls over financial reporting and performance measures and tested CBP's compliance with certain provisions of applicable laws, regulations, and contracts agreements that could have a direct and material effect on these consolidated financial statements.

### SUMMARY

As stated in our opinion on the consolidated financial statements, we concluded that CBP's consolidated financial statements as of and for the years ended September 30, 2007 and 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, CBP changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007.

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

1. Drawback of Duties, Taxes, and Fees
2. Information Technology
3. Entry Process
  - Compliance Measurement Program
  - Bonded Warehouse and Foreign Trade Zones
  - In-Bond Program
  - Continued Dumping and Subsidy Offset Act of 2000 (CDSOA) Refunds

We consider the first two significant deficiencies, above, to be material weaknesses.

We noted no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

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. 07-04, *Audit Requirements for Federal Financial Statements*.

- 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 financial statements; our consideration of CBP's internal controls over financial reporting and performance measures; 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 sheets of the U.S. Department of Homeland Security's (DHS) Customs and Border Protection (CBP) as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CBP as of September 30, 2007 and 2006, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, CBP changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007.

The information in the Management Discussion and Analysis and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. 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.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Performance Results section and Other Accompany Information section are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects CBP's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of CBP's consolidated financial statements that is more than inconsequential will not be prevented or detected by CBP's internal control over financial reporting.

# Independent Auditor's Report



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by CBP's internal control.

In our fiscal year 2007 audit, we consider the deficiencies, described in Exhibits I and II, to be significant deficiencies in internal control over financial reporting. However, of the significant deficiencies described in Exhibits I and II, we believe that the significant deficiencies presented in Exhibit I are material weaknesses. Exhibit IV presents the status of prior year reportable conditions.

## INTERNAL CONTROL OVER PERFORMANCE MEASURES

Our tests of internal control over performance measures, as described in the Responsibilities section of this report, disclosed no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

## 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 *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed one instance of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, and is described in Exhibit III.

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

The results of our tests of FFMIA disclosed no instances in which CBP's financial management systems did not substantially comply with Federal accounting standards.

We have noted certain additional matters that we have reported in the DHS Consolidated management letter.

\* \* \* \* \*

## RESPONSIBILITIES

**Management's Responsibilities.** The United States Code Title 31 Section 3515 and 9106 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, the [Entity] prepares and submits financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing the Management Discussion and Analysis (including the performance measures) and Required Supplementary Information;
- Establishing and maintaining effective internal control; and



- Complying with laws, regulations, and contracts agreements applicable to CBP, 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.

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2007 and 2006 consolidated financial statements of CBP based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are 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 financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2007 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 07-04. 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 express an opinion on the effectiveness of CBP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CBP's internal control over financial reporting.

As required by OMB Bulletin No. 07-04 in our fiscal year 2007 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 internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to report deficiencies in the design of internal control over key performance measures in accordance with OMB Bulletin 07-04. However, our procedures were not designed to provide an opinion 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 fiscal year 2007 consolidated financial statements are free of material misstatement, we performed tests of CBP's compliance with certain provisions of laws, regulations, and contract agreements, noncompliance with which could have a direct

# Independent Auditor's Report



and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain provisions 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 contract agreements applicable to CBP. However, providing an opinion on compliance with laws, regulations, and contract agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 07-04 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.

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CBP's responses to the findings identified in our audit are presented in Exhibits I, II, III. We did not audit CBP's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the CBP's management, DHS management, the DHS Office of the Inspector General, OMB, the U.S. 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 13, 2007

## EXHIBIT I

### Material Weaknesses

#### A. Drawback of Duties, Taxes and Fees

##### Background:

CBP, as a component of DHS, continued to perform an important revenue collection function for the U.S. Treasury. CBP collects approximately \$30 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. Depending on the type of drawback claim, the claimant has up to eight years from the date of importation to file for drawback. At the end of FY 2005, the U.S. Congress enacted the Miscellaneous Trade and Technical Corrections Act of 2004 (Public Law 108-429) that stipulated the timeframe for liquidating claims; this new process is known as deemed-liquidation by CBP. As a result of the new deemed-liquidation process, CBP implemented new policies and procedures during FY 2006 that require the payment of claims in an accelerated timeframe.

##### 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 that do not effectively compensate for the lack of automated controls. 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;
- In addition, we noted that ACS lacked controls to prevent overpayment of drawback claims at the summary line level that were subject to the deemed liquidation process put in place during FY 2006. Specifically, we noted approximately \$8K of overpayments. CBP does not have the capability to determine the total drawback overpayments as the result of deemed-liquidation;
- Drawback review policies did not require drawback specialists to review all or a statistically valid sample of prior drawback claims against the underlying consumption entries (UCE) to determine whether, in the aggregate, an excessive amount was claimed. CBP has no absolute assurance that a selected import entry is not being over-claimed by different drawback claims;
- CBP drawback review policy and procedures allowed drawback specialists, with supervisory approval, to judgmentally decrease the number of ACS selected UCEs randomly selected for review, thus decreasing the review's effectiveness. Further, CBP implemented a new

## EXHIBIT I

sampling methodology for selecting UCEs, however, the methodology is not considered to be statistically valid; 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.

### 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 the Federal Managers Financial Integrity Act (FMFIA), management must implement cost-effective controls to safeguard assets and ensure reliable financial reporting. Office of Management and Budget (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. Whenever 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 legal requirements stated above, CBP's *Drawback Handbook*, dated March 2007, 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. Implement automated controls within ACS to prevent overpayment of a drawback claim that is subject to deemed-liquidation;

## EXHIBIT I

3. While the Automated Commercial Environment (ACE) is in development, we recommend that CBP collaborate with ACE developers/engineers to ensure that the new system eliminates the need for statistical sampling of UCEs and prior related drawback claims as drawback claims. In addition, until ACE is implemented, we recommend that CBP explore other statistical approaches for selecting UCEs and prior related drawback claims under the current ACS environment; and
4. Continue to work with the U.S. Congress to lengthen the required document retention period for all supporting documentation so that it corresponds with the drawback claim life cycle.

### **CBP Response:**

See management's response included in the attached letter.

## **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 2007, CBP took corrective actions to address prior year IT control weaknesses. However, during FY 2007, 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 as 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 *E-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.

## EXHIBIT I

### **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.

### **CBP Response:**

See management's response included in the attached letter.

## EXHIBIT II

### Other Significant Deficiencies

#### C. 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 "Other Accompanying Information" in the financial statements.

###### Condition:

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

- CM Coordinators' guidance related to sampling, review procedures, and documentation requirements is ineffective related to the monthly review of CM results completed by import specialists. CBP issued a memorandum to the ports addressing changes to the Compliance Measurement (CM) program. The memorandum included an updated Appendix B listing the responsibilities of various personnel within the CM process. Section 2.6 states that "On a monthly basis, the CM Coordinator will randomly sample the CM reviews completed by Import Specialists to verify that the reviews have been done in accordance with the procedures set forth herein." However, there is a weakness in the guidance in that it does not provide the CM Coordinators with a sampling methodology, required review procedures, and related documentation requirements for the monthly review;
- Non-compliance with CM guidelines requiring periodic reviews at the port level. During FY 2007, we noted that four CM Coordinators were not performing the monthly reviews of CM reviews performed by the Import Specialists as required in the memorandum discussed above. At an additional six sites, there was no documentation to confirm performance of the monthly reviews. In addition, we noted that at one site, the Compliance Review Tracking Quarterly (CRTQ) function was used to follow-up on Entry Summary CM selectivity hits; however, the CRTQ was not run weekly as required by Appendix B. Further at another port, the SSXM Coordinator position was left vacant for six months; consequently no cargo monitoring reports were run or reviewed during this time. During the review of entries identified on the various monitoring reports, we noted that sites selected for testing were not inputting Import Specialist Discrepancy Adjustment (ISDA) remarks in compliance with Directives 3550-074A (dated May 14, 2004) and 3550-074B (dated September 15, 2006) and Appendix B. We noted two different types of discrepancies from the guidelines noted above: ISDA remarks were entered beyond the 120 day requirement at six ports and the ISDA remarks did not provide sufficient detail at four ports;
- The National Analysis Specialist Division (NASD) port audits were stopped during FY 2006. In prior years, NASD performed port audits to identify errors during the performance of a CM review. In fiscal year 2005, KPMG recommended using a risk-based approach to select which ports to audit. In addition, we recommended compiling the results of the port audits to identify potential trends or weaknesses on a national level, and to calculate a revenue impact

## EXHIBIT II

for the discrepancies noted. During FY 2007, CBP suspended the performance of port audits. Instead, CBP-HQ relies on the Self-Inspection program to determine how the ports are performing the CM examinations. We noted that questions on the self-inspection program worksheets do not provide the equivalent information that the twenty-five point port audit review provided; and

- Untimely results of CM exams. The memorandum for CM changes noted in condition 1 above includes an adjustment extending the deadline for ISDA comments from the Import Specialists to 120 days. Due to the extension in imputing results, CBP is unable to analyze the results of CM exams in a timely manner.

We noted that the first three conditions above have been addressed by CBP in their prior year corrective action plan (CAP) submitted in response to CM findings from the FY2005 and FY2006 financial statement audits. We note that CBP is in the process of designing and implementing standardized web-based queries for CM coordinators to use on a monthly basis to verify that CM reviews have been completed in accordance with the procedures set forth in the CM guidelines. The queries in development are being designed to identify both missing SSXM and ISDA remarks. In addition, a query is being developed that will generate a statistically valid random sample of entry summary reviews for the CM coordinator to review each month. In addition to the standardized queries being developed at the port level, a series of queries will be run by the CM coordinator at HQ each month which will randomly select CM reviews performed nationwide to ensure that ports are in compliance with CM guidelines and requirements. CBP will release standard operating procedures (SOPs) to address each of these items.

We noted that the proposed CM monitoring system will not be implemented until FY 2008.

### **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. In fiscal year 2006, CBP made significant improvements in its custodial review controls and measurement processes, procedures and policies.

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:

1. Provide additional detail in the guidelines, specifying the sample size, procedures to perform, and documentation requirements for the CM Coordinator’s review of Import Specialists’ review. The guidance should also readdress the timing requirements for the monitoring reports or data queries and documentation retention;

## EXHIBIT II

2. Conduct periodic training to ensure that all port personnel have comprehensive knowledge of the CM program requirements; and
3. Re-formalize and implement effective procedures for the port audit process performed by NASD, or readdress the self-inspection program to provide a more comprehensive and in-depth review of port activity (similar to what was accomplished under the previously performed port audits), including ensuring that the port is performing the reviews accurately.

### 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 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:

- CBP lacked the ability to maintain one centrally managed list of all BWs and FTZs;
- Inconsistent procedures followed by the ports for completing the risk assessments and compliance reviews or lack thereof by the ports of completing the risk assessments and compliance reviews; and
- Annual compliance review schedules are completed by the ports and provided to Headquarters once a year. The HQ retrieval and review of the surveys can take up to 6 months to compile and analyze.

#### Criteria:

Under FMFIA, management must implement cost-effective controls to safeguard assets and ensure reliable financial reporting. OMB's *Revised Implementation Guidance for FFMIA*, states that financial systems should "routinely provide reliable financial information consistently, accurately, and reported uniformly" to support management of current operations.

#### Cause/Effect:

CBP's current system ACS does not maintain a complete listing of BWs and FTZs.

## EXHIBIT II

In addition, port personnel were not aware of the requirements and were following outdated procedures for the risk assessments and compliance reviews. CBP-HQ cannot effectively monitor or determine the overall compliance of the BW/FTZ process if inconsistent procedures were being followed at the ports for completing the risk assessment and compliance reviews.

Processes do not exist for the ports to provide on a timely basis the results of the BW/FTZ compliance review schedules and risk assessments to CBP-HQ for review. As a result, CBP-HQ cannot determine the effectiveness of the BW/FTZ program without the ability to track the results on a consistent timely basis from the ports.

It is possible that BW/FTZ operators and users may be able to operate BWs and FTZs that contain merchandise about which CBP has no knowledge.

### Recommendations:

We recommend that CBP:

1. Continue the current plan to compile a population of all BWs and FTZ's within ACE; and
2. Ensure adequate communication of the ports requirements related to compliance reviews and risk assessments and provide effective timely training so that all responsible personnel are aware of and can consistently execute all of the requirements; and
3. Implement a compliance review schedule template to be utilized by all ports for transmission to CBP-HQ. Ensure timely response and review by HQ personnel.

### 3. In-Bond Program

#### Background:

In-bond entries occur when merchandise is transported through one port; however, the merchandise does not officially enter U.S. commerce until it reaches the intended port of destination. An In-bond also allows foreign merchandise arriving at one U.S. port to be transported through the U.S. and be exported from another U.S. port without appraisal or the payment of duty. In 1998, CBP implemented a tracking and audit system within the Automated Commercial System (ACS). It was designed to provide "real time" tracking of in-bond shipments from origin to destination, including entry and exportation. This tracking and audit system also serves as a compliance measurement system through random examinations and port audit reviews to ensure compliance. The tracking and audit system was designed to prevent diversion of In-bond shipments being imported and exported. The tracking and audit system calls for randomly selected ports to perform physical examinations at the time of arrival and departure as well as for post audit reviews of carrier activity.

#### Condition:

We noted the following internal control weaknesses related to the In-bond process:

- Inconsistent procedures followed by the ports for completing compliance reviews/audits of in-bond entries or the overall lack of the completion of such reviews/audits;

## EXHIBIT II

- Inconsistent review of required monthly reports related to in-bond activity at the ports and significant system limitations of the monthly reports which limit the overall usefulness;
- CBP is unable to determine the status of the in-bond shipments with the information available within ACS;
- National policies or procedures do not exist to monitor the results of in-bond audits; and
- CBP has not implemented a CMP to measure the revenue gap and effectiveness of controls over trade compliance related to the In-bond process.

### Criteria:

Under FFMIA, management must implement cost-effective controls to safeguard assets and ensure reliable financial reporting. OMB's *Revised Implementation Guidance for FFMIA*, states that financial systems should "routinely provide reliable financial information consistently, accurately, and reported uniformly" to support management of current operations.

### Cause/Effect:

In recent years, several new directives and a new handbook have been implemented for the in-bond program to address the performance of the program at the port level; however, there are currently no procedures in place to address headquarters' oversight of the program on a national level.

The lack of an automatic compilation and analysis of audit results at the national level results in the inability to determine the overall effectiveness of the in-bond audits and weaknesses in the overall in-bond program will not be known or identified at the national level.

### Recommendations:

We recommend that CBP:

1. Communicate to the ports the requirements for the in-bond program and provide adequate training for appropriate personnel to ensure that the requirements are carried out accurately;
2. Develop policies and procedures for the review of required monthly reports and address system limitations related to the required monthly reports to improve their usefulness. The policies and procedures should state how often the monthly reports are to be reviewed and the exact procedures to follow when completing the review;
3. Implement a standard procedure to periodically compile the results of all in-bond audits performed during the year and develop an analysis function in order to evaluate importers' compliance with regulations as well as the overall effectiveness of the in-bond audits at a national level; and
4. Consider the cost/effectiveness of implementing a CMP (revenue gap calculation) over in-bond to assess the risk of revenue loss and violations of trade regulations by importers.

### 4. Continued Dumping and Subsidy Offset Act of 2000 (CDSOA) Refunds

#### Background:

The Tariff Act of 1930, section 731 (19 U.S.C 1673), provides for the imposition of antidumping duties (AD) when the Department of Commerce's (DOC) International Trade Administration (ITA) determines that foreign merchandise is being sold to the U.S. at less than fair value. The International Trade Commission (ITC) determines whether the import of such merchandise threatened an industry in the U.S. with material injury, caused the establishment of an industry in the U.S. to be materially retarded, or caused an industry in the U.S. to be materially injured. The Continued Dumping and Subsidy Offset Act of 2000 (CDSOA) amended the Tariff Act of 1930 by adding a new section. Section 754 (see 19 U.S.C 1675c) requires that, "...assessed duties...must be distributed to affected domestic producers for certain qualifying expenditures..." that were incurred after the issuance of the related duty order or finding.

Public Law 109-171, section 7601 (a) repealed Section 754 related to good entered into U.S commerce after October 1, 2007. However, CDSOA refunds will continue for several years as the previous fiscal year entries liquidate and are refunded to the injured industry.

When the ITC or ITA concludes its Antidumping review, antidumping duties are moved into a special account for distribution to injured domestic industries, or refunded to the importers against whom the duties were levied.

At least 90 days prior to the end of a fiscal year, CBP is required to publish in the Federal Register a notice of intention (NOI) to distribute assessed duties received as the continued dumping and subsidy offset for that fiscal year.

The NOI must indicate the total amount of funds available for distribution, the case name and the number of the particular order or finding, a list of domestic producers that would be potentially eligible to receive a distribution, and instructions for filing the certification to claim a distribution (19 C.F.R. § 159.62).

#### Condition:

During FY 2007, CBP began a process of validating and verifying (desk review began in 2007 and on-site began in 2005) CDSOA disbursement certification. However, statistical risk based verification was not completed with final analyzed results as the program is still in development.

#### Criteria:

Under FMFIA, management must implement cost-effective controls to safeguard assets and ensure reliable financial reporting. OMB's *Revised Implementation Guidance for FFMA*, states that financial systems should "routinely provide reliable financial information consistently, accurately, and reported uniformly" to support management of current operations.

The *Improper Payments Information Act of 2002* requires agencies to assess the risk of erroneous payments and develop a plan to correct control weaknesses.

## EXHIBIT II

### **Cause/Effect:**

CBP is required, by law, to examine each certification filed, calculate the amount disbursed to each claimant and make all disbursements within the first 60 days following the fiscal year in which the certification was filed. CBP is limited on time and resources to review all certifications that are submitted.

CBP may make CDSOA disbursements based on incorrect certifications filed by injured domestic industries resulting in potential incorrect payments. Without proper verification of certifications being submitted, these erroneous claims may go undetected.

### **Recommendation:**

CBP is currently in the process of developing a verification process for CDSOA disbursements. KPMG recommends that CBP continue with the development of this process in order to ensure compliance with the law.

### **CBP Response:**

See management's response included in the attached letter.

### Compliance with Laws and Regulations

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

#### D. Federal Information Security Management Act (E-Government Act of 2002)

CBP is required to comply with the FISMA, which was enacted as part of the *E-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*.

#### Recommendation:

We recommend that CBP fully implement the requirements of FISMA in fiscal year 2008.

#### E. 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 and the United States Government Standard General Ledger at the transaction level.

Specifically, we noted the following weaknesses:

1. With respect to Federal financial management system requirements, CBP's inventory transactions do not interface between the inventory systems and the financial system (SAP) and non-entity accounts receivable do not interface between ACS and SAP; and
2. With respect to the United States Government Standard General Ledger at the transaction level, inventory activity (usage, turn-ins, interagency transfers) and non-entity accounts receivable are not recorded at the transaction level in SAP. Non-entity accounts receivable information is maintained in ACS, SAP, and on manually prepared schedules. ACS is made up of several financial modules that track receivables through entry or case number. Year-end balances are posted through the ACS/SAP interface and through manual calculations for receivables not recorded through the ACS/SAP interface.

#### Recommendation:

We recommend that CBP improve its processes to ensure compliance with the FFMIA in fiscal year 2008.

#### CBP Response:

See management's response included in the attached letter.

# Independent Auditor's Report

## EXHIBIT IV

Prior Year Condition	As Reported at September 30, 2006	Status as of September 30, 2007
<b>Drawback of Duties, Taxes and Fees</b>	<b>Material Weakness:</b> 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.	<b>Continue as a material weakness:</b> Weaknesses continue to exist related to the drawback process. See control finding letter A.
<b>Information Technology</b>	<b>Material Weakness:</b> Weaknesses were noted in entity-wide security, system access, segregation of duties, service continuity, and system software change management.	<b>Continue as a material weakness:</b> Although improvements were made, weaknesses still remained in all areas noted during fiscal year 2007. See control finding letter B.
<b>Financial Reporting – Property, Plant, and Equipment</b>	<b>Reportable Condition:</b> Weaknesses were noted in the accountability of property, plant, and equipment.	<b>No longer considered a reportable condition.</b>
<b>Financial Reporting – Intra Departmental Imputed Financing Costs</b>	<b>Reportable Condition:</b> Weaknesses were noted in CBP's ability to track and properly record in a timely manner all intra-departmental imputed financing costs.	<b>No longer considered a reportable condition.</b>
<b>Financial Reporting – Financial Statement Presentation</b>	<b>Reportable Condition:</b> Weaknesses were noted in CBP's ability to properly prepare financial statements that complied with all reporting requirements of OMB A-136 and applicable federal accounting standards.	<b>No longer considered a reportable condition.</b>
<b>Entry Process – Compliance Measurement Program</b>	<b>Reportable Condition:</b> Several weaknesses existed related to CMP, such as inconsistent procedures followed at the ports, reduced CMP sample size, lack of NASD port audits, and little review or analysis on the CM data to ensure that it was inputted correctly.	<b>Continue as a significant deficiency:</b> Although improvements were made, weaknesses still remain during fiscal year 2007. See control finding letter D.
<b>Entry Process – Bonded Warehouse and Foreign Trade Zones</b>	<b>Reportable Condition:</b> Several weaknesses existed related to BW/FTZ, such as the lack of official guidance and training to address the monitoring of BW/FTZ, lack of management review of the BW/FTZ surveys, and the lack of a revenue gap calculation related to BW/FTZ.	<b>Continue as a significant deficiency:</b> Weaknesses continue to exist related to the bonded warehouse and foreign trade zone process. See control finding letter D.
<b>Entry Process – In Bond</b>	<b>Reportable Condition:</b> Several weaknesses existed related to in-bond, such as the lack of official guidance and training to address the monitoring of in-bond	<b>Continue as a significant deficiency:</b> Although improvements were made, weaknesses still remain during fiscal year 2007. See control finding letter

# Independent Auditor's Report

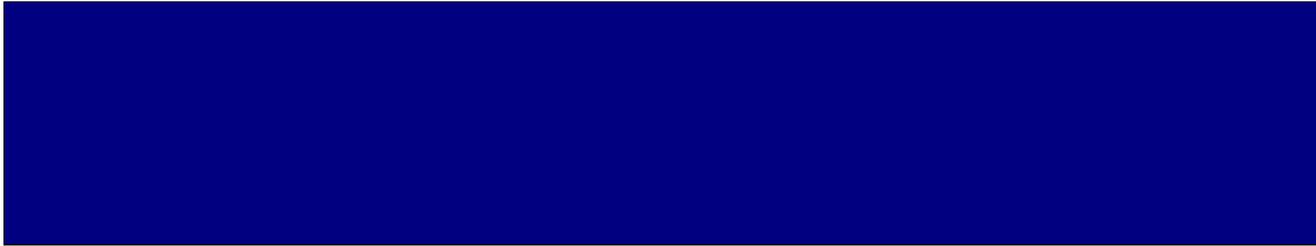
## Exhibit IV

Prior Year Condition	As Reported at September 30, 2006	Status as of September 30, 2007
	shipments at the port level, lack of CBP-HQ review of the in-bond program, and the overall inability to determine the effectiveness of the in-bond program for CBP in its entirety.	D.
<b>Non-compliance with the Federal Information Security Management Act</b>	<b>Instance of non-compliance:</b> 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.	<b>Continue reporting as an instance of non-compliance:</b> Although improvements were made, CBP did not substantially comply with all categories of FISMA. See compliance finding letter E.
<b>Non-compliance with the Federal Financial Management Improvement Act of 1996</b>	<b>Instance of non-compliance:</b> CBP was not in substantial compliance 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	<b>Continue reporting as an instance of non-compliance:</b> Although improvements were made, CBP did not substantially comply with all categories of FFMIA. See compliance finding letter F.
<b>Non-compliance with the Improper Payments Act of 2002 (IPIA)</b>	<b>Instance of non-compliance:</b> CBP was not in substantial compliance with IPIA, which requires agencies to review all programs and activities they administer annual and identify those that may be susceptible to significant erroneous payments. For all programs and activities where the risk of erroneous payments is significant, agencies must estimate the annual amounts of erroneous payments, and report the estimates to the President and Congress. We noted that CBP did not complete IPIA sampling and testwork as it	<b>No longer considered an instance of non-compliance.</b>

# Independent Auditor's Report

## Exhibit IV

Prior Year Condition	As Reported at September 30, 2006	Status as of September 30, 2007
	relates to custodial activity disbursements and as a result could not provide complete IPIA information to DHS.	



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- Email us at [DHSOIGHOTLINE@dhs.gov](mailto:DHSOIGHOTLINE@dhs.gov); or
- Write to us at:  
DHS Office of Inspector General/MAIL STOP 2600, Attention:  
Office of Investigations - Hotline, 245 Murray Drive, SW, Building 410,  
Washington, DC 20528.

The OIG seeks to protect the identity of each writer and caller.



# 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 16 2007

TO: Inspector General  
Department of Homeland Security

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

SUBJECT: Management Response – Independent Auditor's Report on U.S. Customs  
and Border Protection's Fiscal Year 2007 Financial Statements

On behalf of U.S. Customs and Border Protection (CBP), I am responding to the Independent Auditor's Report on CBP's Fiscal Year 2007 Financial Statements included in our Fiscal Year 2007 Performance and Accountability Report. The independent public accounting firm KPMG LLP issued an *unqualified* opinion on CBP's Fiscal Year 2007 Financial Statements. In addition, CBP was able to reduce the number of significant deficiencies and non-compliance with laws and regulations by one each.

We have reviewed and concur with the two material weaknesses, the one significant deficiency, and the two instances of non-compliance with laws and regulations contained in the auditor's report. Corrective action plans outlining CBP's strategy to correct these conditions will be prepared and provided to the Office of Financial Management, U.S. Department of Homeland Security. CBP will continue to work to resolve all auditor identified weaknesses.

CBP appreciates the opportunity to review this year's audit report and looks forward to continuing our professional auditing relationship with your office.

A handwritten signature in black ink, appearing to read "E. Schied", written over a light blue horizontal line.

Eugene Schied

# Acronyms

A&M	Air and Marine	CSI	Container Security Initiative
ACE	Automated Commercial Environment	CSRS	Civil Service Retirement System
ACS	Automated Commercial System	C-TPAT	Customs Trade Partnership Against Terrorism
AD/CV	Antidumping and countervailing	CY	Current Year
ADP	Automated Data Processing	DHS	Department of Homeland Security
AMOR	Air and Marine Operations Reporting System	DOE	Department of Energy
AMP	Asset Management Plan	DOL	Department of Labor
APATS	Air Program Administration Tracking System	DOS	Department of State
APIS	Advance Passenger Information System	EEO	Equal Employment Opportunity
ARO	Admissibility Review Office	EITs	Entry Identification Teams
ATS	Automated Targeting System	ENFORCE	Enforcement Case Tracking
BICs	Border Intelligence Centers	ER	Expedited Removal
BPETS	Border Patrol Enforcement Tracking System	ESAR	Entry Summary Accounts and Revenue
BSETs	Border Security Evaluation Teams	FAIR	Federal Activities Inventory Reform
BSI	Border Safety Initiative	FAMs	Federal Air Marshals
BW	Bonded Warehouses	FAST	Free and Secure Trade
C3I	Command, control, communications, and intelligence	FBI	Federal Bureau of Investigation
CAMITS	Customs Automated Maintenance Inventory System	FDA	Food and Drug Administration
CAR	Checkpoint Activity Report	FDAU	Fraudulent Document Analysis Unit
CARMAC	Computerized Aircraft Reporting and Material Control System	FECA	Federal Employees' Compensation Act
CBP	U.S. Customs and Border Protection	FERS	Federal Employees' Retirement System
CEP	Canine Enforcement Program	FFMIA	Federal Financial Management Improvement Act
CFO	Chief Financial Officer	FISMA	Federal Information Security Management Act of 2002
CM	Compliance Measurement	FMFIA	Federal Managers' Financial Integrity Act
COBRA	Consolidated Omnibus Budget Reconciliation	FRPP	Federal Real Property Program
		FTE	Full Time Equivalent

FTZ	Foreign Trade Zones	MLUs	Border Patrol Mexican Liaison Units
FY	Fiscal Year	NCIC	National Crime Information Center
FYHSP	Future Year Homeland Security Program	NFR	Notice of Finding and Recommendation
GAAP	Generally Accepted Accounting Principles	NII	Non-Intrusive Inspection
GAO	Government Accountability Office	NIST	National Institute of Standards and Technology
GOM	The Government of Mexico	NLETS	National Law Enforcement Telecommunication System
GPRA	Government Performance and Results Act	NPRM	Notice of Proposed Rule Making
GSA	General Services Administration	NTC	National Targeting Center
HECS	Homeland Enforcement Communication System	NTCC	National Targeting Center-Cargo
HRM	Human Resources Management	NTCP	National Targeting Center-Passenger
IA	Internal Affairs	OASISS	Operation Against Smugglers Initiative on Safety and Security
IBET	Integrated Border Enforcement Teams	OAT	Office of Anti-Terrorism
ICE	Immigration and Customs Enforcement	OBP	Office of Border Patrol
ICS	International Container Scanning	OCA	Office of Congressional Affairs
INA	Office of International Affairs/ Immigration and Nationality Act	OCC	Office of Chief Counsel
INATR	Office of International Affairs and Trade Relations	OF	Office of Finance
INS	Immigration and Naturalization Service	OFO	Office of Field Operations
IPIA	Improper Payments Information Act of 2002	OIG	Office of Inspector General
IPT	Integrated Product Team	OINT	Office of Intelligence
ITDS	International Trade Data System	OIT	Office of Information and Technology
IT	Information Technology	OJS	Operation Jump Start
IUF	Immigration User Fees	OMB	Office of Management and Budget
IUFA	Immigration User Fee Account	OMR	Operations Management Reports
MID	Management Inspection Division	OPA	Office of Public Affairs
		OPM	Office of Personnel Management
		OPP	Office of Policy and Planning
		ORBBP	Operational Requirements Based Budget Program

# Acronyms

OT	Office of International Trade	SFFAS	Statement of Federal Financial Accounting Standards
OTD	Office of Training and Development	SFI	Secure Freight Initiative
OTM	Other Than Mexican	SIP	Self-Inspection Program
OTR	Over-The-Road	SIRS	Self-Inspection Reporting System
PAR	Performance and Accountability Report	SNMP	Simple Network Management Protocol
PART	Performance Assessment Rating Tool	TASPO	Targeting and Analysis Systems Program Office
PF-70	Primary fence additional 70 miles	TECS	Treasury Enforcement Communication System
PIERS	Port Import Export Reporting Services	TOI	Targets of Interests
PMA	President's Management Agenda	TWP	Temporary Worker Program
POE	Port of Entry	TSA	Transportation Security Agency
POEs	Ports of Entry	UA	Unmanned Aircraft
PP&E	Property, Plant and Equipment	UAS	Unmanned Aircraft System
PY	Prior Year	U.S.	United States
RCMP	Royal Canadian Mounted Police	USCG	U.S. Coast Guard
RPMC	Real Property Management Council	USDA	U.S. Department of Agriculture
RFID	Radio Frequency Identification	UST	Underground fuel storage tanks
RSI	Required Supplementary Information	US-VISIT	U.S. Visitor and Immigrant Status Indicator Technology
SAFE	Safety and Accountability for Every Port Act legislation	VACIS	Vehicle and Cargo Inspection Systems
SAP	Systems, Applications, and Products	WADS	Work Accomplishment Data System
SBI	Secure Border Initiative	WCO	World Customs Organization
SBI PEO	Secure Border Initiative Program Executive Office	WHTI	Western Hemisphere Travel Initiative
SBR	Statement of Budgetary Resources	WMD/Es	Weapons of Mass Destruction/Effects
SENTRI	Secure Electronic Network for Traveler Rapid Inspection		

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