CBP Annual Financial Report

Fiscal Year 2010

U.S. Customs and
Border Protection

About This Report

This is the U.S. Customs and Border Protection (CBP) Fiscal Year 2010 Annual Financial Report (AFR). The AFR presents CBP's audited financial statements, assurances on internal control, accountability reporting and agency assessments. CBP's AFR provides financial information that enables Congress and the public to assess the performance of the agency as it relates to the CBP mission.

CBP is America's frontline border agency. We guard the boundaries of freedom and stand between the good citizens of our Nation and those who want to do us harm. The CBP AFR satisfies the reporting requirements of the Reports Consolidation Act of 2000 (Pub. L. No. 106-531), Chief Financial Officers Act of 1990 (Public Law No. 101-576), Office of Management and Budget (OMB) Circular No. A-136, ***Financial Reporting Requirements***, dated September 29, 2010, and other financial management statutes and reports.

For FY 2010, CBP is using the alternative approach as identified in the OMB Circular A-136 to produce its Performance and Accountability Report (PAR) consisting of the following reports:

- **CBP Annual Financial Report:** Publication Date – January 25, 2011
- **CBP Annual Performance Report:** CBP will not produce an Annual Performance Report (APR) for FY 2010 because FY 2010 Government Performance and Results Act (GPRA) measures are being improved as a result of Department of Homeland Security's (DHS) Quadrennial Homeland Security Review. However, CBP's performance information will be included in DHS's APR was published February 7, 2011.
- **CBP Summary of Performance and Financial Information:** Publication Date – January 25, 2011

When published, the aforementioned Reports will be located at our public website: ***www.cbp.gov***.

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Commissioner's Message

I am pleased to present the Fiscal Year (FY) 2010 Annual Financial Report (AFR) for U.S. Customs and Border Protection (CBP).

CBP's priority missions are to prevent the entry of dangerous people and goods into the United States and to facilitate lawful trade and travel. As the Nation's border agency, whose personnel are stationed at and between our Nation's ports of entry, CBP is responsible for managing, securing, and controlling our borders. In FY 2010, the men and women of CBP made tremendous progress toward improving border security through stemming illegal immigration, drug trafficking, and alien smuggling. Everyday we process millions of containers and people coming across our borders.

In FY 2010, CBP participated in the Department of Homeland Security's (DHS) Quadrennial Homeland Security Review (QHSR). The QHSR addressed both the risks and the framework of DHS's strategic response and identified DHS's leadership and stewardship role in the homeland-security enterprise. In addition, CBP participated in DHS's Bottom-Up Review to align programmatic activities and organizational structure with the mission and goals identified in the QHSR. As we work to meet our key mission of securing our borders and facilitating lawful travel and trade, the following four mission areas guide our efforts:

1. **Securing America's Borders**

   CBP protects the United States and the American people from the entry of unlawful or dangerous people and goods. Securing the physical borders of the United States is and will remain an essential mission for CBP.

2. **Securing Flows of Goods and Movement of People**

   Securing flows of goods, conveyances, and people to and through the United States is key to CBP's success in protecting our Nation at the border. Focusing on the entire supply chain (for goods) and transit sequence (for people) allows CBP to do less at the physical border and intercept potential threats before they can cause harm.

   Some of the functions CBP performs must be done overseas (e.g., helping to identify would-be suicide bombers before they board an airplane bound for the United States); others are best done at the physical border (e.g., intercepting contraband); and still others can be done well after arrival in the United States (e.g., commercial duty collection). CBP must be able to constantly readjust its international footprint as threats change and new opportunities emerge.

   One key element of "securing flows" is separating shipments and individuals according to the risks they pose. More effective risk segmentation depends on both enhanced targeting and the expansion of vetted shipper and traveler programs, which allow CBP to focus scarce law enforcement resources on the relatively small number of people and shipments that have the potential to cause harm.

3. **Expediting Lawful Trade and Travel**

   Trade is crucial to America's economic competitiveness and CBP has important trade facilitation and trade law enforcement missions. CBP must help reduce transaction costs by expediting commerce from vetted, compliant shippers. CBP must also facilitate legal travel, which contributes to America's economic vitality and remains a key element of America's openness as a society. Finally, CBP must enforce intellectual property rights to ensure that U.S. industries remain competitive.

4. **Sustaining Investment in People and Capabilities**

   CBP's people are our greatest asset. We must continuously work to improve our organizational effectiveness and to multiply our presence with advanced technology.

FY 2010 Annual Financial Report

As a result of the FY 2010 Financial Statement Audit, CBP received an unqualified opinion on its full set of financial statements. This outstanding accomplishment demonstrates CBP's discipline and accountability in the execution of its fiscal responsibilities as a steward of CBP programs. This is the fifth year CBP has received an unqualified opinion.

The CBP FY 2010 AFR includes financial information that is reliable, complete, and addresses CBP's compliance with financial management requirements. The AFR addresses CBP's compliance with financial management requirements and identifies some areas for improvement.

CBP evaluated the management control and financial management systems in compliance with the Federal Manager's Financial Integrity Act of 1982, as well as our internal controls over financial reporting as required by the Department of Homeland Security Financial Accountability Act. As a result of CBP's self assessment, one material weakness was identified for FY 2010, two instances of non-conformance, and five deficiencies that are carryovers from previous years.

KPMG LLP conducted an independent audit of CBP's FY 2010 Financial Statements. CBP has reduced its material weaknesses from FY 2009, including those cited in the financial section of this report, which supports those identified through CBP's self-assessment process.

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

I would like to congratulate the entire CBP workforce for all of our achievements over the past year and the job performed every day to protect our Nation. Our success would not have been possible without the tireless efforts and unyielding work ethic of the men and women of CBP.

Alan Bersin

Alan Bersin, Commissioner
U.S. Customs and Border Protection

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Management's Discussion and Analysis

Overview of CBP

Mission

CBP is the frontline border security agency within the Department of Homeland Security (DHS) charged with the priority mission of preventing terrorists and their weapons from entering the United States, while also facilitating the flow of legitimate trade and travel. CBP prevents narcotics, agricultural pests and smuggled goods from entering the country and also identifies and arrests individuals with outstanding criminal warrants. CBP leverages its enforcement and intelligence-gathering capabilities to execute the mission of border and airspace security. More than 58,700 CBP employees manage, control, and protect the Nation's borders at and between the official Ports of Entry (POE). 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. 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 and the laws 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, our agency, and our country.

Fiscal Year 2010 Statistical Highlights

- Ports of entry: 331
- Border Patrol sectors: 20 (with 139 Border Patrol stations nationwide and 35 permanent checkpoints)
- Air units: 46 (1 Training location and 3 Radar/Communications locations)
- Marine units: 71 (2 Training locations and 1 Maintenance location)
- Trade entries processed: 28 million
- Total revenue collected: $32 billion (includes custodial and entity revenue)
- Illegal narcotics seized: 2.7 million pounds (represents narcotics held by CBP until disposal or destruction) (CBP's Financial Statements Note 8 reports all seized illegal drugs, including steroids, in kilograms instead of pounds.)

- Illegal alien apprehensions between the ports of entry: 463,382
- Inadmissible aliens interdicted at the ports of entry: 227,061
- Pedestrians and passengers processed: 352 million
- Conveyances processed: over 105 million
- Aircraft passengers processed: over 90 million
- Prohibited plant and animal materials seized at the ports of entry: 1,707,876
- Agricultural plant and pest intercepted at the ports of entry: 196,815

Drug Seizure Statistics

Note: The following amounts represent total CBP seizures, including amounts transferred to Other Government Agencies (OGA) for disposition.

- Number of pounds of cocaine seized: 254,385
- Number of pounds of heroin seized: 4,176
- Number of pounds of marijuana seized: 3,622,219
- Number of pounds of methamphetamine seized: 8,981

A CBP officer seizes illegal substances concealed in a vehicle.

Major Mission Programs and Strategies

As America's frontline border security agency, CBP has established programs and strategies designed to enhance border security and other mission critical functions by operating as a fully integrated information-driven agency. CBP strives to maximize partnerships on the home front and abroad by promoting an effective management infrastructure that fosters the highest standards of integrity. CBP has built a layered strategy using risk-based approaches and performance management techniques that maximize CBP's strengths.

The American Recovery and Reinvestment Act of 2009

During FY 2009, CBP received a supplemental appropriation under the American Recovery and Reinvestment Act of 2009, Public Law 111-5 (ARRA). ARRA made $680 million available to CBP until the end of FY 2010 for infrastructure investment. ARRA allocated $420 million for the planning, management, design, alteration and construction of CBP-owned Land Ports of Entry (LPOE); $160 million for the procurement and deployment of

Non-Intrusive Inspection (NII) systems and tactical communications equipment and radios; and $100 million for the expedited development and deployment of border security technology on the southwest border.

Non-Intrusive Inspection

NII and Radiation Detection Technology are a critically important component of the CBP layered enforcement strategy. NII technology allows CBP to screen a larger portion of the stream of traffic for the presence of contraband in less time while facilitating legitimate trade and travel. These tools provide CBP with a significant capability to detect and interdict terrorist weapons and other contraband at and between our Ports of Entry (POE). At the end of FY 2010, CBP had a total of 275 large-scale NII imaging systems deployed to our Nation's air, land, and seaports of entry and to Border Patrol checkpoints. These systems include large-scale X-ray and Gamma-ray imaging systems, as well as a variety of small-scale, portable, and hand-held technologies. CBP has moved quickly to deploy nuclear and radiological detection equipment. Through the end of FY 2010, CBP has acquired and deployed 1,428 Radiation Portal Monitors (RPM), 1,524 Radiation Isotope Identification Devices (RIID) and 18,594 Personal Radiation Detectors (PRD) nationwide.

CBP officers/agents use large-scale NII equipment, such as Gamma-ray and X-ray imaging systems to scan the contents of entire containers. These units can image the interior of a full-size, 40-foot container, in less than one minute. Some of the currently deployed high-energy X-ray systems can penetrate more than a foot of steel. This equipment is effective at identifying a variety of illegal activity and contraband, including human smuggling, narcotics, weapons, and explosives.

CBP uses RPMs to scan cargo containers for radioactive materials as they pass through vehicle-processing lanes at land border ports, as they are off-loaded from ships at seaports, and at select airports and express consignment facilities. Officers also use PRDs and RIIDs to scan for and identify 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 unloaded and opened for a more extensive manual inspection.

Secure Border Initiative and SBI*net*

The Secure Border Initiative (SBI) within CBP was established in 2005 to integrate and unify the operational requirements and the acquisition programs to develop and deploy technology and Tactical Infrastructure (TI) to assist frontline CBP personnel to maintain security at our Nation's borders. For FY 2011, CBP will reorganize the SBI office and stand up the Office of Technology Innovation and Acquisition (OTIA). OTIA will continue to manage the legacy of SBI.

SBI's three main goals are to:

1. Enhance and improve the security of our Nation's borders by identifying, designing, developing, deploying, and maintaining our border security tools and capabilities.

2. Establish an effective relationship between operational and acquisition elements in CBP to ensure technology meets the operational need.

3. Provide expertise in Program Management and Acquisition to execute the border security programs.

These three goals are achieved through the coordination of SBI's three programs: SBI*net*, TI, and the Tactical Communication Modernization Program (TACCOM).

- SBI*net* focuses on the development, installation, and integration of new and existing technology solutions. SBI*net* Block 1 represents the first production version of the SBI*net* system.
- TI focuses on developing and deploying components such as roads, fencing, lights, electrical components, and drainage structures.
- TACCOM focuses on upgrading tactical communications radio systems employed by CBP agents and officers, enabling more effective coordination and collaboration among Federal, state, local, and tribal law enforcement agencies, and improving personnel safety.

In FY 2010, SBI*net* Block 1 successfully completed construction of its first deployment in Tucson, Arizona (TUS-1). Along with construction, the Government's Systems Acceptance Testing (SAT) was completed in August, 2010. Block 1 consists of towers with day and night vision cameras, radars, and communications linked to a Common Operating Picture (COP). The COP enables agents to control and integrate sensors, identify and classify entries, and gain an understanding of events along the border under surveillance.

Another northern border project underway consists of developing an Operational Integration Center that provides opportunities for law enforcement agencies to create information sharing among all Federal, state, local, tribal and international agencies to address threats in the Great Lakes area. The information gathered will help shape future decisions and investments.

Along with this technology and infrastructure, SBI is also developing new technologies that enable CBP and DHS to better assess how best to implement and leverage SBI technologies going forward. SBI continues a strong commitment to providing front-line agents and officers with optimal and integrated solutions to enhance their ability to fulfill their duty of securing our Nation's borders.

Land Ports of Entry

CBP identified and prioritized repairs, enhancements, and replacement projects needed to modernize northern and southern border ports to sustain evolving operational requirements. Current facilities were designed to meet earlier mission requirements and have site configurations that restrict the flow of traffic or pose constraints that limit the ability to deploy the optimal complement of inspection technology. CBP received $420 million in ARRA funds to address modernization needs for CBP's LPOEs. These funds are targeted to modernize 33 of the 43 LPOEs currently in CBP's inventory. CBP's strategy focuses on increasing the quality of facility performance and facility-related services. The ultimate goal is to improve these critical assets to better meet CBP's mission to secure the Nation's border while facilitating legitimate travel and trade.

National Border Patrol Strategy

CBP's strategy to secure our Nation's borders between the POEs is prescribed largely in the National Border Patrol Strategy. The area between the POEs consist of miles of open space, deserts, waterways, forests, and prairies — making our Nation's borders vulnerable to the threats of terrorism and to exploitation by human smugglers as well as smugglers of drugs and other illicit contraband. The strategic goal of CBP's Office of Border Patrol (OBP) is to gain, maintain, and expand effective control of our Nation's borders between the POEs. To assist in achieving its goal, the Border Patrol implemented the National Border Patrol Strategy that 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 to:

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

The primary goal of the National Border Patrol Strategy is ***effective control*** of the border, which is achieved by deploying the right mix of resources based on threat potential, vulnerabilities, associated risk, and operational dynamics to reasonably ensure that CBP is able to achieve the following:

- ***Detect*** an illegal entry into the United States between the POEs;
- ***Identify*** and ***classify*** the threat level associated with that illegal entry;
- ***Respond*** to the area of the illegal entry; and
- Bring the situation to a successful law enforcement ***resolution***.

These four elements must be accomplished to establish effective control of the borders. A proper mix of technology, personnel, infrastructure (to include pedestrian and vehicle fencing), checkpoint operations, and rapid response capabilities will facilitate the detection of illegal cross-border activity. The appropriate mix of these components varies depending on the challenges of the focus area and a dynamic border environment.

Focused Border Security Enforcement Initiatives

The appropriate mix for deployment of Border Patrol resources is determined through OBP's Operational Requirements Based Budgeting Program (ORBBP). ORBBP is a rigorous and comprehensive methodology that takes a risk-based approach in determining resource requirements, deployments, and operational tactics in a dynamic operational environment. ORBBP allows field commanders to examine and assess all factors--current and future, internal and external--affecting border security and ensures the engagement of the appropriate resources and tactics against current and projected threats and vulnerabilities. Using this methodology, OBP met or exceeded all of its performance targets for ***border miles under effective control*** for prior and current fiscal years.

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 939 miles in FY 2009 to 1,107 miles at the end of FY 2010, an 18 percent increase.

Intelligence Driven Operations: Border Intelligence Centers

The mission of Border Intelligence Centers (BIC) is to prevent terrorists and their weapons, smugglers and their contraband, and illegal aliens from entering the United States through the real-time collection, analysis, and dissemination of tactical intelligence. Originally developed as the Command and Control Intelligence Coordination Center in the San Diego Sector, BICs represent a significant enhancement to CBP's ability to rapidly collect, analyze, disseminate, and share intelligence information.

The BICs collect and analyze information through the use of databases, operational statistics, intelligence reports from other agencies, and interviews with apprehended illegal aliens and smugglers, as well as through the use of geospatial decision support tools. The intelligence produced by 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 CBP and is shared with DHS components and other law enforcement partners. These efforts support CBP's commitment to become a fully integrated intelligence-driven organization.

Integrated Border Enforcement Teams

The Integrated Border Enforcement Teams (IBET) operates as intelligence-driven enforcement teams comprised of U.S. and Canadian Federal, state/provincial, and local law enforcement personnel. The IBETs incorporate an integrated mobile response capability (air, land, and marine) designed to provide collaboration and support to participating law enforcement agencies and to serve as a force multiplier to maximize border enforcement efforts in support of CBP's National Strategy. IBETs consist of five core agencies with law enforcement responsibilities within the border area. These agencies share information and intelligence, coordinate operations, and share resources to maximize border enforcement efficiency and effectiveness. The participating agencies include: CBP's Border

Patrol, U.S. Immigration and Customs Enforcement (ICE), U.S. Coast Guard (USCG), Royal Canadian Mounted Police (RCMP) and Canadian Border Services Agency (CBSA).

Since their inception, IBETs have enhanced border integrity and security on both sides of the U.S. and Canadian border by identifying, investigating, and interdicting persons and criminal organizations that pose a threat to the national security of both the United States and Canada. There are 24 IBETs in 15 IBET Regions. Each of these IBETs actively share information, and work bi-national and joint enforcement operations aimed at securing the integrity of the United States-Canada border.

2010 Success Stories:

- Two Border Patrol Assistant Chiefs assigned to Ottawa, Canada represented OBP at IBET Joint Management Team meetings and provided daily liaison conduit between OBP and RCMP.
- RCMP leadership in Ottawa, Canada was briefed on northern border Resourcing Philosophy and ORBBP levels of control definitions.
- RCMP and Border Patrol conducted successful operations during the 2010 Winter Olympics at Vancouver, Canada.
- Pilot project – RCMP ground sensor and camera network with feeds to Border Patrol.

Threat-Based Surge Operations

OBP has continued to implement and fully utilize surge operations to maintain or gain effective control of the border through improved enforcement. The Border Patrol's strategy for implementing surge operations across the southwest border is based on threats, risks, vulnerabilities, and the resources of our partner agencies. These operations increase the probability of apprehending terrorists and the weapons they attempt to move illegally across the border by entering the United States between the POEs. These operations also help to reduce crime in border communities. Surge operations are implemented to proactively address actionable intelligence, seasonal migration trends, and other trends in cross-border criminal activity.

Alliance to Combat Transnational Threats

Operation Alliance to Combat Transnational Threats (ACTT) began on September 5, 2009, in the Tucson Sector's Central Corridor, now currently known as the Focus Area 1 (FA-1) corridor. ACTT utilizes a collaborative, cooperative enforcement approach that leverages the capabilities and resources of the DHS agencies in Arizona, in partnership with other Federal, state, local, and tribal Governments, as well as the Government of Mexico (GOM). ACTT targets individuals and criminal organizations that pose a transnational threat and are involved in unlawful cross border activity.

The strategic approach of ACTT creates an environment that deters, denies, degrades, disrupts, and applies a consequence to illegal activity and dismantles the criminal elements' ability to conduct their illicit operations.

ACTT also applies a Comprehensive Consequence Delivery System (CCDS) to individuals and organizations that are involved in illegal cross border activity. The objective of the CCDS is to provide a consequence for illegal activity by attaching legal/administrative penalties to every violation utilizing a vast suite of law enforcement, legal, and administrative actions.

At the field level, the unity of effort is overseen by the ACTT Unified Command (UC). The UC brings together the field level leaders of DHS and the State of Arizona agencies that are currently participating in ACTT. The UC directs operational activities, including the development and implementation of overall mission objectives and strategies, and approves ordering and releasing of resources for more law enforcement and public safety agencies that have agreed to participate in ACTT.

ACTT is currently conducting the following operations in the immediate border area, transit routes, and final destination locations:

- Coordination with the GOM;
- Focused border enforcement operations – at and between the POEs;
- Defense in depth – including checkpoints and other enforcement efforts along routes of egress;
- Coordinated and focused investigative efforts in both Tucson and Phoenix, Arizona; and
- Comprehensive Consequence Delivery System (CCDS).

Operation ACTT is targeting criminal organizations involved in illegal cross border activity in order to debilitate the criminal elements' ability to operate in the border region. This will be accomplished through the unified and focused efforts of DHS assets currently supported by other Federal, state, local, and tribal law enforcement agencies.

Comprehensive Consequence Delivery System

OBP has adopted a CCDS, which applies the appropriate judicial, administrative and programmatic action to individuals and organizations involved in illegal cross border activity through various consequence programs, further impacting the criminal elements' ability to operate in the border region.

The Consequence Programs listed below provide agents with tools to separate illegal aliens from the smuggling organizations. These programs add a deterrence factor to the border security effort by dissuading individuals from participating in illegal cross border activity.

Immigration Quick Court (QC)

- QC is a program in which an Immigration Judge holds court at the Border Patrol Tucson Sector Processing Center. The Judge will hear up to 30 non-contested deportation cases for Mexican citizens per court day.

Alien Transfer Exit Program (ATEP)

- ATEP is a remote voluntary return program that targets illegal aliens who are arrested in designated priority areas within the Tucson Sector. These aliens are then voluntarily returned in an adjacent sector.

Operation Against Smugglers Initiative on Safety and Security (OASISS)

- OASISS is a bi-national prosecutorial program with the Mexico Attorney General/ Procuraduría General de la República (PGR) that is focused on combating human smuggling across the southwest border, by identifying and prosecuting Mexican nationals arrested for alien smuggling in the United States. Select alien smuggling cases which are declined by the Assistant United States Attorney's (AUSA) Office and are amenable to OASISS are subsequently turned over to the GOM for prosecution under Mexico's legal and judicial system.

Operation No Refuge

The United States Government has substantial legal authorities to control the entry of aliens into the country. Through Operation No Refuge (ONR), the U.S. Government continues to strategically leverage those authorities against criminal organizations and drug trafficking cartels based in Mexico. Although major criminal organization and cartel leadership have been targeted for visa revocation or refusal, mid to low level cartel figures (e.g., those who provide support and aid to the cartels, and their immediate family members) have not been adequately targeted for inadmissibility. ONR seeks to close that gap and create vulnerabilities within criminal organizations and cartels which will expose them to additional law enforcement actions.

Mexican Interior Repatriation Program

OBP, in collaboration with ICE Detention and Removal Operations (DRO) and the GOM, implemented the Mexican Interior Repatriation Program (MIRP) in support of border control operations in Arizona. MIRP is a joint CBP and ICE endeavor designed to support the Border Patrol's Border Safety Initiative (BSI). The intent of MIRP is to reduce exposure deaths in Arizona by removing voluntary participants from high-risk areas of the Sonoran Desert during the peak summer months and repatriating these participants to the interior of Mexico. MIRP also serves to break the smuggling cycle by removing the participants from the immediate control of smuggling organizations and lastly serves as a deterrent to entering into these high-risk areas.

The ICE Office of Investigations (OI) in Arizona is working with the CBP Office of Field Operations (OFO) and the GOM on an alternative prosecution program (Marijuana OASSIS program) for marijuana cases in Nogales, Arizona that are declined by the U.S. Attorney's office in Tucson. Under this program, individuals that are arrested at the

POEs in Nogales for narcotics smuggling are prosecuted in Mexico by the PGR in the event that the AUSA declines the case.

Operation Streamline

Operation Streamline is an enhanced prosecution effort with the desired outcome of reducing illegal cross-border activity by delivering consequences. The effort is a collaboration between personnel and resources from DHS (e.g. CBP's OBP and Office of the Chief Counsel) and ICE's DRO as well as resources from the Department of Justice (DOJ), including 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, OBP focuses its resources on designated zones to ensure the probability of apprehension, detention, criminal prosecution, incarceration, and the ultimate removal of illegal entrants. All aliens in violation of the law that are apprehended within the designated zones are charged and criminally prosecuted for a violation of 8 U.S.C. §1325 (illegal entry), with a potential sentence of up to 180 days. The average sentence ranges from 15 to 90 days for illegal entrant aliens with no prior history.

Caribbean Border Interagency Group

The mission of the Caribbean Border Interagency Group (CBIG) is to optimize joint efforts and serve as a force-multiplier for our DHS and participating DOJ partners as we work to prevent, detect, and interdict the entry of terrorists, weapons of mass destruction, illegal migrants, and illegal narcotics across shared areas of responsibility. These partners include CBP's OBP, Office of Air and Marine (OAM), and OFO, the USCG, ICE and the U. S. Attorney's Office.

The partnership developed an innovative prosecution template. This process ensures that enforcement efforts include gathering evidence sufficient for successful prosecution of violators of maritime or immigration laws. The USCG's development of biometric capability at sea is also a key accomplishment and is critical to identifying and categorizing those apprehended as threats.

By applying a meaningful consequence to criminal and repeat offender aliens, CBIG's judicial focus has played a significant role in the improvement of several indicators: the overall flow of illegal aliens attempting to enter through the Mona Channel decreased by 59 percent (1,293 in FY 2009 versus 531 in FY 2010); interceptions at sea decreased by 4 percent; landings decreased by 6 percent; apprehensions decreased by 23 percent; and prosecutions, which initially increased sharply through the prosecutorial partnership, have now decreased by 60 percent as the overall flow of illegal aliens has trended downward.

Operation Stonegarden

The Operation Stonegarden (OPSG) grant program is a component of the Homeland Security Grant Program (HSGP), which is an important part of a larger coordinated effort by DHS to strengthen Homeland Security preparedness. The HSGP implements objectives addressed in a series of post 9/11 laws, strategy documents, plans and Homeland Security Presidential Directives. OPSG funds are intended to enhance cooperation and coordination among local, tribal, territorial, state, and Federal law enforcement agencies in a joint mission to secure the United States borders along routes of ingress from international land and water borders. OPSG funds must be used to increase operational capabilities for Federal, state, local, tribal, and territorial law enforcement, promoting a layered, coordinated approach to law enforcement with U.S. border states and territories.

The Border Patrol, with its unique operational knowledge of effective border enforcement, leads the coordination of operational planning for OPSG, including evaluation and allocation determinations. In order to determine allocations, border security risk is analyzed, and two primary factors are considered: threat and vulnerability. Analysis of the threat factor involves the examination of supporting information to determine the likelihood and/or impact of an incident or occurrence, as well as the ability and intent of a transnational criminal organization to commit an act. Vulnerability is determined by the opportunity for the action or incident to occur based on various factors, such as terrain, personnel, technology, and tactical infrastructure. Threat and vulnerability can vary significantly, therefore; each factor receives a value based on specific evaluation criteria to calculate the risk for planning purposes.

Fiscal Years 2008, 2009, and 2010 program highlights include:

FY 2008

- $60 million appropriated to OPSG
- 15 states eligible to participate in OPSG
- 64 counties or equivalent entities received grant awards

FY 2009

- $60 million appropriated to OPSG
- 38 states/territories eligible to participate in OPSG
- 88 counties or equivalent entities received grant awards
- $30 million supplemental appropriated to OPSG for southwest border states only
- 30 counties or equivalent entities received supplemental grant awards

FY 2010

- $60 million appropriated to OPSG
- 39 states/territories eligible to participate in OPSG
- 102 counties or equivalent entities received grant award

Forward Operating Bases

The use of Forward Operating Bases (FOB) began in the Tucson Sector to address remote crossing points that historically have been difficult for agents to patrol because of the vast distances and time involved to access these areas. FOBs have proven to be beneficial in the detection and deterrence of illegal entries in the areas in which they have been deployed. FOBs are now utilized in the Yuma, Tucson, El Paso, Del Rio, Marfa, and Rio Grande Valley Sectors.

The use of FOBs directly supports OBP's mission of gaining, maintaining, and expanding operational control of our Nation's borders. As OBP continues to gain control of the border, illegal migration activities and smuggler tactics shift in an attempt to identify and exploit vulnerabilities in border security measures, particularly in the more remote areas of the U.S. border. Strategically placed FOBs afford the Border Patrol a cost-effective, secure staging facility that allows agents to be deployed in proximity to the border, thus improving CBP's ability to rapidly respond to and counter these shifts in illicit cross border traffic.

Border Patrol Checkpoint Operations

Border Patrol traffic checkpoint operations play a significant strategic and tactical role in the support of the National Border Patrol Strategy. The Border Patrol currently operates a combination of 35 permanent and 140 tactical traffic checkpoints nationwide as part of a three-tiered, defense-in-depth strategy to secure our Nation's border between POEs. This strategy involves the use of line-watch operations on the border, roving patrol operations near the border, and traffic checkpoints on highways leading away from the border.

The primary target of an effective Border Patrol traffic checkpoint operation is immigration violators. Specific operational emphasis is placed on terrorists and their weapons, criminals, and smugglers of both humans and narcotics who have successfully evaded detection at or between the POEs. Traffic checkpoints deter criminal elements from using major traffic arteries as egress routes from the border, which results in improved effectiveness of line-watch and roving patrol operations. Smugglers use highway infrastructure to further the illegal entry of their smuggling operations into the United States. Highways provide a rapid and cheap means of transporting illicit cargo away from the bulk of enforcement assets and to the intended destination. Traffic checkpoints deny routes of egress to the criminal element and force them to take alternate avenues that leave them more susceptible to detection.

Border Patrol agents at the checkpoint are highly trained to identify suspect vehicles and subjects through a combination of visual, auditory, olfactory, tactile, and logic cues during vehicle and interview inspection. OBP also employs specialized resources such as canines trained to sniff out concealed humans and narcotics, radiation detection equipment, and Vehicle and Cargo Inspection Systems that enhance agents' ability to prevent illegal aliens and contraband from proceeding into the interior of the United States.

During FY 2010, the following border enforcement successes were attributed to OBP traffic checkpoint operations nationwide:

- 14,559 individuals arrested (3 percent of total Border Patrol apprehensions)
- 2,293 cases referred for prosecution
- 7,966 narcotic seizure events and incidents (45 percent of the total Border Patrol narcotic seizures)

National Targeting Center

National Targeting Center – Passenger

The National Targeting Center-Passenger was created to be the single point of reference for CBP anti-terrorism efforts. NTC-P plays a vital role in the identification of individuals who pose a national security concern at POEs and Border Patrol checkpoints. While the vast majority of travelers and goods are legitimate, NTC-P is designed to carefully identify and examine the small minority of those who may be involved in terrorism or its attendant concerns (e.g. money laundering or the facilitation of travel). The facility is staffed with both permanent and Temporary Duty (TDY) analysts, as well as several inter-agency liaisons to provide 24 hours, 7 days a week (24x7) tactical targeting and analytical research support for CBP anti-terrorism efforts. NTC-P is the CBP Point of Contact (POC) for all possible Terrorist Screening Data Base (TSDB) encounters with CBP field entities and is the primary contact between CBP field offices and case agents from OGA on all positive TSDB encounters. NTC-P is in continuous contact with the Terrorist Screening Center, the National Counterterrorism Center, and the Terrorist Screening Operations Unit. NTC-P uses numerous automated enforcement data processing systems which are focused on detecting and preventing terrorist access to the United States including the Automated Targeting System-Passenger (ATS-P) and the Intelligence Operations Framework System (IOFS). These systems allow NTC-P to screen passenger manifests and related information prior to a passenger's arrival in the United States. ATS-P and IOSF respond to terrorism related alerts, provide time sensitive research, and support on any issues related to international passengers and travel at and between POEs.

In addition to providing the field, CBP headquarters, and other U.S. Government and law enforcement agencies with in-depth research on suspected terrorist travel, trends, and associates, NTC-P has expanded its operations over the last fiscal year to include:

- Providing 24-hour support for Immigration Advisory Program (IAP) officers posted at 10 airports around the world and conducting pre-departure passenger targeting on international flights destined to the United States.

- NTC-P targeting and support responsibilities have continued to grow with the ongoing expansion of the IAP; the Electronic System for Travel Authorization (ESTA); the expansion of the Stolen Lost Travel Document database (owned by the International Criminal Police Organization (ICPO) which is commonly known as INTERPOL Stolen Lost Travel Document database; and public health, outbound passenger targeting, and information sharing initiatives with Canada, Mexico and the United Kingdom.
- In January 2010, NTC-P implemented the Pre-Departure Program by utilizing ATS-P to identify high-risk passengers and other inadmissible aliens in an effort to prevent their departure prior to boarding commercial carriers bound to the United States from non-IAP locations. Through the end of FY 2010, more than 1,100 passengers were denied boarding on flights destined to the United States.
- In an effort to strengthen air passenger security, NTC-P has modified its automated systems to conduct continuous vetting of visa revocations and denials. This continuous vetting will ensure that changes in visa status are propagated through the system in near real time allowing the NTC-P to immediately respond with a "No-Board" message that will be systematically transmitted directly to the airlines via the Advanced Passenger Information System (APIS) Quick Query.
- During FY 2010, NTC-P conducted training on the Air and Marine Operations Center (AMOC) at the March Air Reserve Base, Riverside, California to further develop joint targeting processes in the general aviation foreign arrival/departure environment.

Additionally, NTC-P conducts liaison work with the Centers for Disease Control (CDC), Central Intelligence Agency (CIA), ICE, Federal Bureau of Investigation (FBI), Transportation Security Administration's (TSA) Office of Intelligence, Federal Air Marshals, Department of State (DOS), USCG, and Citizenship and Immigration Services' Fraud Detection and National Security unit. CBP and TSA have established a joint Targeting Workgroup to leverage CBP capabilities with TSA authorities to ensure that high-risk passengers are screened overseas prior to boarding a conveyance bound for the United States.

NTC-P has worked diligently to develop links within the Intelligence Community to apply knowledge and tools that enhance border security through data verification and other techniques to corroborate identity information and gain insight into commercial entities. NTC-P continues to streamline and facilitate the sharing of information to ensure the safety of the U.S. commercial passenger environment.

These programs and areas of innovation establish NTC-P as CBP's preeminent anti-terrorism facility. It is a prime example of pushing the zone of security outward and keeping terrorism at "arms length" by screening passengers before they arrive at the U.S. border.

National Targeting Center – Cargo

The National Targeting Center-Cargo (NTC-C) is a critical part in CBP's layered enforcement strategy. NTC-C supports CBP cargo-related activities by proactively targeting and coordinating examinations of high-risk cargo in all modes of transportation; providing high-quality research to the Container Security Initiative (CSI), Secure Freight Initiative (SFI), domestic analytical units, and OGAs; and implementing new proactive methodologies. NTC-C provides 24x7 tactical and strategic cargo research in all modes of transportation. NTC-C staff is comprised of CBP Officers, Import Specialists, Agriculture Specialists, program managers, and scientists. NTC-C liaises with the Food and Drug Administration (FDA), Department of Agriculture (USDA), Department of Commerce, ICE, and the Drug Enforcement Administration (DEA).

NTC-C identifies companies and cargo linked to identified terrorists. NTC-C also creates Memoranda of Information Received (MOIRs), TECS records, Automated Targeting System (ATS) user-defined rules, ATS notes, and Terrorist Identities Datamart Environment (TIDE) nominations. NTC-C conducts user-defined queries for Weapons of Mass Destruction (WMD), Weapons of Mass Effect (WME), Agro-terrorism, and Bio-terrorism threats. NTC-C identifies shipments linked to terrorism, narcotics, and trade-based money laundering. NTC-C conducts research on seized or detained documents from countries of interest relating to terrorism, organized crime, child endangerment, intellectual property rights, and human smuggling to develop additional targets and make enforcement referrals to ICE.

NTC-C enhances remote targeting operations in support of the CSI, supports and coordinates the International Container Security (ICS) component of SFI, and supports domestic and CSI/SFI port targeting. CSI and SFI operations, housed at NTC-C, function as stand-alone operations with staffing and management structures within NTC-C, providing additional support staffing as workload demands increase.

In FY 2010, NTC-C significantly expanded outbound targeting operations. In support of the DHS mandate to increase southbound validations of weapons shipments to Mexico, NTC-C aggressively targeted outbound and in-transit shipments to Mexico. NTC-C coordinated with CBP ports and CBP Mexico Attaché to conduct examinations and to verify the legitimacy of the shipments. NTC-C also reviewed outbound and in-transit cargo destined to other high-risk countries, such as controlled chemicals and dual-use equipment used in the production of WMD/WMEs.

NTC-C has also significantly expanded narcotics and precursor targeting. NTC-C identifies drug trends, conducts tactical post seizure analysis, and disseminates intelligence products to CBP, DHS, and OGA. In addition to targeting for heroin, cocaine, and marijuana, the NTC-C narcotics unit also has nationwide responsibility for targeting precursor chemicals used for the production of methamphetamines, ecstasy, and other dangerous drugs. NTC-C is aggressively targeting shipments originating in, or transiting to, Mexico for narcotics and precursor chemicals utilizing risk management principles. Targeting is based upon post seizure analysis; intelligence received from the GOM, ICE, DEA, OGAs; Mexican seizure data, and Mexico 24-Hour Rule data.

Under the International Cargo Targeting Fellowship Program, CBP supports the assistance of other countries in developing systems to manage anti-terrorism and security threats by hosting foreign customs officials. The objective is an exchange of information and the refinement of targeting methodologies to identify high-risk cargo shipments. Benefits include working together to effectively reduce terrorism and security risks, maximizing the security and facilitation of the international supply chain, and providing an additional layer in CBP's multilayered defense strategy to enhance national security.

In FY 2010, the NTC-C Agricultural/Biological Terrorism Countermeasures (ABTC) Team continued to increase efforts to identify and target shipments and subjects that pose potentially significant risks. NTC-C, Agriculture Programs Trade & Liaison (APTL) staff collaborate with the Defense Intelligence Agency (DIA), USDA, and OGAs utilizing the Agricultural Resource Atlas (AgRA) data to identify entities who work with or store biological materials. Law enforcement, Government, and commercial databases are used to expand upon the AgRA data to target entities with derogatory information that have the capability and knowledge to utilize biological materials for nefarious purposes.

Office of Air and Marine

OAM is a critical component of CBP's layered enforcement strategy for border security. OAM secures the borders against 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, interdicting suspect conveyances, and apprehending suspect terrorists and smugglers at and beyond U.S. borders. OAM 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.

OAM works in partnership with Federal, state, local, and tribal agencies in 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 cross cutting within DHS and the Federal Government as a whole, the unique capabilities of OAM serve as both a standalone entity and as a force multiplier.

Container Security Initiative

Maritime containerized shipping is a critical component of global trade because most of the world's manufactured goods are transported in maritime cargo containers. In the United States, almost half of incoming trade (by value) arrives by containers onboard ships. In FY 2010, more than 11 million cargo containers arrived on ships and were off-loaded at U.S. seaports.

Through the Container Security Initiative (CSI), sea cargo containers that pose a threat are identified and examined at foreign ports before they are shipped to the United States. CBP receives the bill of lading and manifest data on sea containers 24 hours before the containers are loaded on vessels 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 the U.S. zone of security outward so that America's borders are the last line of defense, not the first.

CSI is a reciprocal program that offers participating countries the opportunity to send their Customs Officers to major U.S. POEs to target ocean-going containerized cargo being exported to their countries. Likewise, CBP shares information on a bilateral basis with its CSI partners. CSI consists of three core elements:

- Using intelligence and automated advance targeting information to identify and target containers that pose a risk for terrorism;
- Prescreening those containers that pose a risk at the port of departure before they arrive at the POE; and
- Using state-of-the-art detection technology to scan containers that pose a risk.

In FY 2010, CBP officers conducted operations in 58 CSI ports overseas. These CSI ports account for approximately 80 percent of cargo containers destined for the United States. During the year, CSI continued to transition CSI TDY personnel to permanent status and place resources at NTC-C to reduce the number of CBP officers deployed. CSI will continue to evaluate and adjust personnel levels at several CSI ports to achieve desired staffing levels.

As of September 30, 2010, 35 foreign administrations have joined or have committed to join the CSI program. Strong support from countries in Europe, Asia, the Middle East, Africa, North and South America, and the Caribbean ensures that CSI will continue to receive cooperation from foreign customs administrations in those areas.

National Agriculture Release Program

The National Agriculture Release Program (NARP) was developed by the USDA Animal and Plant Health Inspection Service (APHIS), Plant Protection and Quarantine (PPQ), for implementation on a national level, expanding the long-existing southern border cargo release program. This program facilitates the importation of regulated agricultural products of very low risk that are imported in high volume. The commodities are subject to a reduced rate of inspection based on USDA risk analysis. USDA APHIS PPQ determined that inspections at a reduced rate would not compromise United States agricultural resources, as the risk of introduction of potentially harmful plants, pests, and diseases are very low for these agriculture commodities.

Customs-Trade Partnership Against Terrorism

Customs-Trade Partnership Against Terrorism (C-TPAT) focuses on strengthening the supply chain security as it is an important layer in CBP's cargo enforcement strategy. C-TPAT asks its member partners to ensure the integrity of their security practices and communicate and verify the security guidelines of their business partners within the supply chain.

C-TPAT requires trade community participants to document and validate their supply chain security procedures in relation to the program's criteria. C-TPAT Supply Chain Security Specialists (SCSS) and C-TPAT participants jointly conduct validations of the supply chain security procedures. The validation process is essential to verifying the company's commitment to C-TPAT.

In addition to conducting validations, C-TPAT's cadre of SCSSs provide advice and guidance to trade community representatives on supply chain security issues, identify supply chain security vulnerabilities, and monitor company initiatives that address those vulnerabilities. Validations conducted by SCSSs determine the accuracy and effectiveness of companies' security profiles as applied to their foreign and domestic supply chains.

For calendar year 2010, C-TPAT undertook validation of 2,916 companies, in accordance with the Safety and Accountability for Every Port Act legislation (SAFE). As of September 30, 2010, C-TPAT has completed the validation of 2,275 companies.

C-TPAT and CBSA Partners in Protection (PIP) have made significant progress in terms of implementing the Mutual Recognition Arrangement (MRA) signed in June 2008, as the programs are accepting each other's validations. PIP has accepted 850 C-TPAT validations. Twenty-two C-TPAT importer partners were validated in collaboration with China Customs in January 2010. C-TPAT's successful completion of fieldwork and testing enabled CBP to sign a mutual recognition arrangement (MRA) with Korean Customs Service's (KCS) Authorized Economic Operator (AEO) industry partnership program.

C-TPAT also organized and executed the annual trade conference in Anaheim, California, which involved more than 1,200 company representatives. The program also organized a second C-TPAT Northern Border Highway Carrier conference in August, which involved more than 350 company representatives and provided information to many companies which may have not previously attended a formal C-TPAT conference.

C-TPAT's Evaluation and Assessments Branch (EAB) has initiated 94 evaluations of validations. C-TPAT expects to meet its current and projected validation workload for next year, but continued membership growth will require CBP to re-examine program resources. C-TPAT will continue to strengthen the validation process and support foreign customs administrations as they stand up their own industry partnership programs.

Secure Freight Initiative

The Secure Freight Initiative (SFI) incorporates a three-pronged approach to enhance supply chain security that includes the ICS program, the development of a regulation to require additional data elements for improved high-risk targeting (Security Filing 10+2), and initiatives to identify and acquire technology enhancements to strengthen cargo scanning and cargo risk assessment capabilities. The Security Filing portion of SFI will be addressed in the "Looking Ahead" section of this report.

International Container Security Initiative

ICS uses an integrated scanning system, consisting of RPMs provided by the Department of Energy (DOE) and NII imaging systems provided by CBP to scan containers as they move through foreign ports. Using optical character recognition technology, data from these systems are integrated and provided to CBP officers, who determine whether the container should be referred to the host nation for secondary examination before lading. For the CBP officers, SFI/ICS provides additional data points that are used in conjunction with advanced manifest data to assess the risk of each container coming to the United States.

The SFI's ICS program is operational and is currently scanning all U.S. bound containers laden in: Port of Qasim, Pakistan; Port of Shuaiba, Kuwait; and in a limited capacity, Salalah, Oman. CBP is negotiating with the Governments of Jordan and Egypt to begin scanning operations at the ports of Alexandria (Egypt) and Aqaba (Jordan). Additionally, CBP is negotiating with the Government of Pakistan to expand scanning operations to the port of Karachi.

On March 17, 2010, the SFI pilot at the Port of Busan, Korea, officially ended by mutual agreement between DHS and the Korean Government. This pilot study provided valuable operational lessons on the technical, logistical, and diplomatic challenges associated with scanning maritime containers. On July 1, 2010, the SFI pilot studies at the ports of Southampton (United Kingdom) and Puerto Cortes (Honduras) officially ended by mutual agreement between DHS and those Governments. CBP and the Governments of Korea, the United Kingdom and Honduras have agreed to continue to work together under the current CSI agreement and explore alternative approaches toward enhancing container and trade security through risk management and total supply chain security.

100 Percent Scanning Legislation

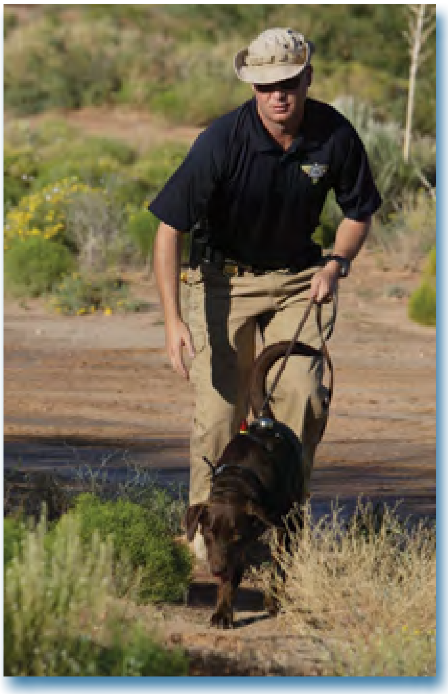
On August 3, 2007, the President signed Public Law 110-53, "Implementing the 9/11 Commission Recommendations Act of 2007," which requires 100 percent scanning of all U.S.-bound containers by July 12, 2012. CBP will continue to work closely with the trade community, industry, and foreign partners to implement 100 percent scanning in a thoughtful, responsible and practical manner that integrates smoothly into the global trade supply chain with minimal if any disruption to the trade.

CBP has developed options for deploying overseas scanning systems to a limited number of strategic locations where the additional scan data would prove the most beneficial to enhance DHS's risk-based, layered strategy towards securing maritime cargo. These locations were identified through a collaborative analysis between CBP, Department of Defense (DOD), Department of Energy (DOE), and Department of State (DOS). CBP used a risk matrix, which fuses the DOE Megaports Initiative with CBP's data analysis. The risk-based matrix incorporated data that assessed risk based on transnational terrorism threats, the countries' commitments to securing nuclear material, political violence, high-risk shipment volume, and additional social and political filters (e.g. crime, port security and tolerance for corruption).

These options focus deployments of SFI operations in strategic locations through which potentially high-risk containerized U.S.-bound cargo transits or originate, and will provide additional data to CBP officers for assessing the risk of those containers laden at an SFI port. This strategic approach is consistent with DHS's risk based and layered approach to securing maritime containerized cargo.

Canine Enforcement Teams

CBP has the largest and most diverse law enforcement canine program in the United States. CBP's 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 the POEs, at international mail facilities, and along the border between the POEs. Some CBP detector dogs are trained to perform Border Patrol Search and Rescue (SAR) missions; 28 canine-agent teams serve Border Patrol sectors. In FY 2008, Border Patrol initiated the Special Response Team (SRT) Patrol Canine program, training these teams for use in tactical high stress situations. These teams are also another tool in CBP's ongoing effort to combat border violence to prevent assaults against agents and illegal aliens and control criminal activity along the border. At present there are 15 teams deployed along the southwest border.



CBP canines are trained to detect illegal immigrants and contraband.

Canine teams are assigned to 79 POEs and 121 Border Patrol stations, sectors, and special operations groups throughout the United States. OBP has three organized canine/horse patrol units, which allow the canine to be worked alongside the handler riding on horseback. 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, located in Front Royal, Virginia, and El Paso, Texas. In FY 2010, CBP trained approximately 456 detector dogs at its training academies.

Expedited Removal Program

A key element of CBP's ongoing effort 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 who can be removed from the United States without an immigration hearing. The ER process also has built-in provisions to address aliens who believe they have a claim to credible fear of persecution or torture if they are returned to their home country. An alien who claims fear of return is interviewed by a CIS asylum officer who determines whether the alien has a credible fear of return. If a claim is determined to be credible, the alien is not removed from the United States under the provisions of the ER program.

The program was expanded to include illegal aliens apprehended by Border Patrol on the southwest border and later extended to include apprehensions on the northern border. This includes 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. It also includes those who are unable to establish their physical presence in the United States for the two-week period prior to the date of encounter.

In the more than three years, since the announcement of the end of "catch and release," the ER program has become a routine way of doing business. As of September 30, 2009, if the alien meets the guidelines, those aliens apprehended along the southwest and northern borders who are subject to detention pending removal and are otherwise ineligible for release from custody under U.S. Immigration law are now being detained for removal utilizing the ER program. There are a few exceptions based on humanitarian reasons, but these cases are reviewed on a case-by-case basis. In FY 2010, the Border Patrol apprehended 50,912 Other Than Mexican (OTM) aliens at the southwest border, 3,665 along the northern border, and 4,440 on the coastal border, of which all of those subject to removal were detained.

International Liaison Unit

The mission of the International Liaison Unit (ILU) is to create and maintain positive working relationships and to foster alliances with foreign counterparts to increase border security. The alliances established by the ILU maintain open communications and mutual respect with foreign and domestic law enforcement counterparts. Previously named the Mexican Liaison Unit (MLU), which started in El Centro, California, the MLU was reorganized in FY 2008 as the ILU to standardize national policies and procedures for international liaison. Today, the ILU is operational in all southwest Border Patrol sectors and has dedicated personnel resources of approximately 33 agents, with a coordinator in Washington, DC, and one coordinator in each of the sectors participating in the program. Their success was the direct result of relationships formed with Mexican authorities in Federal, state, and local law enforcement having the common goal of border safety and security.

The ILU strategic goals are as follows:

- Establish, develop, and maintain effective relationships of trust and confidence with individuals representing their foreign Government agencies;
- Identify and develop common law enforcement objectives with foreign Governments to combat border crime;
- Cultivate and reinforce commitment with foreign and domestic law enforcement communities; and
- Develop and maintain information sharing with foreign and domestic law enforcement agencies.

Agents serving under the ILU focus and engage in activities that complement and support current program operations, as well as agency and department enforcement strategies.

The ILU's established partnerships have helped pave the way for programs like the Border Violence Protocols program, formed in an effort to reduce and provide a response to increased violence in the immediate border area along the southwest border, and the OASISS. OASISS was a product of the United States-Mexico agreement to establish a bilateral, standardized prosecution program. The OASISS program was developed to address the increasing amount of alien smugglers across the Southwest border. The program allows for alien smugglers apprehended in the United States to be prosecuted by the GOM. This program has been very effective in areas along the southwest border affected by guidelines that make it difficult to prosecute certain alien smuggling cases. In FY 2010, 598 OASISS cases were generated, with 398 principals accepted for prosecution by the GOM.

Consolidated Trusted Traveler Program

The Consolidated Trusted Traveler Program (CTTP) is an umbrella of CBP's Trusted Traveler Programs [NEXUS (a joint venture between Canadian and U.S. authorities), the Secure Electronic Network for Travelers Rapid Inspection (SENTRI), the Free and Secure Trade program (FAST), and Global Entry] that use 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 to free CBP officers to increase security at the POEs by enabling them to concentrate on higher-risk travelers.

NEXUS and SENTRI are land border management processes that provide expedited CBP processing for pre-approved, low-risk travelers. In addition, NEXUS offers expedited processing in select Canadian pre-clearance airports. Applicants must voluntarily undergo a thorough biographical background check against criminal, law enforcement, customs, immigration, and terrorist indices. In addition, a personal interview with a CBP officer is required. Once an applicant is approved, they are issued a Radio Frequency Identification (RFID) card that will identify their record and status in the CBP database upon arrival at a U.S. POE. This allows users to have access to specific, dedicated primary lanes for processing into the United States. For NEXUS participants in the pre-clearance airports, the member's iris is scanned allowing users to have access to the self-service kiosks.

The FAST commercial driver program is the result of the United States, Canada, and Mexico Border Partnership Action Plan (PAP). The FAST program provides expedited processing of participants' qualifying merchandise in designated traffic lanes at select border sites. These designated FAST lanes allow FAST qualified shipments a nearly unencumbered approach up to and through the commercial facility.

Global Entry, CBP's newest trusted traveler program in the airport environment, was announced as a pilot program in June 2008. The program is now available at the 20 Model Ports, those airports with the highest volume of visitor traffic. CBP is completing the rulemaking process to make Global Entry a permanent program.

Admissibility Review Office

CBP's Admissibility Review Office (ARO) provides institutional knowledge and a consistent decision-making approach regarding the exercise of discretion for inadmissible aliens under the Immigration and Nationality Act (INA). The ARO works extensively with 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 DOS consular officers recommend worldwide and decides all Government non-immigrant waivers. It also processes and adjudicates all waiver applications submitted directly to CBP by individual international travelers.

Fraudulent Document Analysis Unit

The Fraudulent Document Analysis Unit (FDAU) was established in 2005 to act as a central location for the collection and analysis of fraudulent travel documents seized by CBP officers nationwide. The mission of the FDAU is to remove fraudulent travel documents from circulation and prevent the use of these documents by mala fide travelers attempting to enter the United States. Since its inception, the FDAU has received more than 207,000 fraudulent documents. The FDAU receives documents that are counterfeit, altered, presented by impostors, or otherwise obtained by fraud or intended for fraudulent use. Documents presented by imposters make up the vast majority of the fraudulent documents received by the FDAU.

The FDAU manages the CBP Fraud Prevention Program (FPP). The goal of the FPP is to increase fraudulent document interceptions by expanding access to standardized training, high-quality document examination equipment, and current information on fraudulent document use and fraud trends. One hundred fifty three CBP officers have been designated as Fraud Prevention Officers (FPO) in 139 locations, and have been tasked with sharing information regarding document fraud and fraud trends, creating reports on fraudulent document use, conducting document examination training and working closely with headquarters on matters related to document examination and document fraud.

The FDAU also manages the Carrier Liaison Program (CLP). The mission of CLP is to enhance border security by increasing commercial carrier effectiveness in identifying improperly documented passengers destined for the United States. CLP uses interactive training, which allows participants to engage in hands-on instruction in fraudulent document identification, passenger assessment, impostor identification, and travel document verification. The CLP team has developed innovative training products, including a sample travel document that allows participants to examine dozens of common security features. Since its inception, CLP has provided training to more than 25,000 airline industry personnel on 343 training missions. CLP developed standardized training material for the carrier industry and has developed a Vessel Inspection Guide for the seaport industry.

CBP has partnered with Dutch law enforcement authorities regarding Electronic Documentation and Information System in Investigation Networks with Information of Travel Documents (Edison-TD). Edison-TD is a stand-alone global database used for the verification of travel and identity documents. The FDAU is the U.S. representative on the Edison-TD steering committee and is responsible for inputting documentation information.

Enforcement Information Technology Advances

Advance Passenger Information System

The Advance Passenger Information System (APIS) is the single most critical element in CBP's ability to identify dangerous individuals entering or departing the United States. Through this system, CBP receives biographical and travel document information on passengers and crew arriving in and departing from the United States by air, sea, and land (from commercial bus and rail operators).

APIS data is received in advance of a traveler boarding the intended aircraft (both commercial and private) or departing on a commercial vessel, allowing CBP to screen all travelers against Government watch lists and provide a screening response to commercial air carriers and private aircraft operators. CBP also receives advance data that is sufficient for automated basic law enforcement queries that look for matches with multi-agency law enforcement alerts, immigrant visas, and historical databases. The APIS process has also been modified to incorporate Electronic System for Travel Authorization (ESTA) screening to allow carriers to use the existing APIS processes to meet new ESTA requirements.

Enforcement Systems

e3 Program

e3 is a CBP-developed transactional enforcement application that captures data on all enforcement actions performed by Border Patrol agents. OBP has implemented and deployed to all sectors a suite of modules within the e3 program. These modules include e3 Processing, e3 Biometrics, e3 OASISS, e3 Assaults, and e3 Prosecutions. These modules enhance the Border Patrol's ability to capture and report incidents pertaining to their enforcement duties.

- The e3 Processing Module was designed to be used with conventional and satellite communication channels while integrating with the Border Patrol geospatial application eGIS. Border Patrol agents use eGIS across the United States 24 hours a day to annotate enforcement actions related to interdictions.
- The e3 Biometrics Module was designed to process two-print and ten-print rolled fingerprint transactions and then search the Automated Biometric Identification System (IDENT) and Integrated Automated Fingerprint Identification System (IAFIS) biometric databases.
- The e3 Assault Module provides a web-based interface for CBP agents and officers to record incidents of violence against CBP employees in the field. This module replaces a formerly paper-based reporting process.
- The e3 OASISS Module assists agents working on the OASISS to track and manage OASISS cases.
- The e3 Prosecution Module integrates with e3 Processing and e3 Biometrics event data, allowing prosecuting agents to enter, acquire, update, and track data pertaining to allegations and criminal prosecution. Prosecuting agents can create prosecution cases, e-file and print cases, update and track cases, and create statistical reports through this module.

Mobile Biometrics Processing Field Kits

OBP has deployed mobile biometrics processing kits throughout the Nation to increase processing capabilities. These portable processing workstations are used with the suite of e3 applications to search, enroll, identify, and process subjects encountered by agents away from Border Patrol stations. These kits have been used in conjunction with local, state and Federal partners to effectively identify subjects of interest and more efficiently utilize resources, thus allowing agents to spend more time in the field.

Mobile Enforcement Technology

A Border Patrol agent operates a remote camera system.

Mobile Surveillance Systems

OBP has 41 Mobile Surveillance System (MSS) units deployed along the northern and southern Borders. The combination of electronic surveillance sensors enhance the ability of CBP to detect, identify, classify, and track persons attempting to enter the United States by other than legal or lawfully approved avenues of approach and/or entry. The deployment of this equipment has helped CBP meet its additional goal of increasing border protection capabilities within its allotted workforce.

Mobile Processing Center

The Mobile Processing Center (MPC) is a 53-foot, reconfigured semi-trailer that provides a mobile solution to mass migration, remote processing and disaster related incidents. Through the MPC, agents are linked via satellite to the DHS/CBP network with access to e3, IAFIS, e-mail, internet, and other law enforcement systems. Additionally, agents are provided with a platform utilizing the Radio Interoperability System (RIOS) to communicate with other Federal, state, and local agencies. The MPC is used to assist with emergency responses, such as a command center for terrorism related and disaster-relief situations.

Mobile Video Surveillance Systems

The Mobile Video Surveillance System (MVSS) uses a sophisticated monitoring system that provides nearly 360-degree coverage around the unit. The main components are comprised of integrated sensors, software, and power systems. The sensors include an infrared camera, and on some systems, a laser designator. The suite allows for surveillance capabilities primarily during the hours of darkness.

Remote Video Surveillance System

The Remote Video Surveillance System (RVSS) is a system of day and/or infrared cameras mounted to a permanent structure. The images are transmitted, monitored, and recorded at a central location. This system is deployed to monitor large spans of the international border or Critical Transit Nodes (CTN) within the United States.

Agent Support Equipment

CBP utilizes various technologies to assist in locating, identifying, and apprehending those attempting to cross the border illegally. Nearly every piece of technology utilized between the POEs is found in northern, southern, and coastal border operations. Technology deployments are based on operational need and the technology's ability to fit within that area's operating environment. In FY 2010, the Agent Support Equipment Unit deployed equipment to agents in the field. These deployments were comprised of the following pieces of equipment:

- **Short Range Thermal Monocular (TAM-14):** are head and weapon mountable units used for thermal imaging that allow the operator to detect images up to one mile away in a dark environment. In FY 2010, 26 units were purchased and deployed to field operations.
- **Night Vision Monocular:** are head and weapon mountable units used for enhancement of ambient light that allow the operator to detect images up to one mile away in a dark environment. In FY 2010, 306 units were purchased and deployed to field operations.
- **Binoculars:** are used for visual detection of items or individuals of interest up to one mile away in daylight environment. In FY 2010, 4,750 units were purchased and deployed to field operations.
- **Global Positioning Systems:** are used for land navigation and location documentation activities during patrol and enforcement duties. In FY 2010, 2,000 units were purchased and deployed to field operations.
- **Medium Range Thermal Imaging Kit (FLIR Recon III Lite):** provides thermal imaging that allows the operator to detect images up to three miles away in a dark environment. The FLIR Recon III Lite is equipped with a digital magnetic compass, a laser pointer, and a split screen function that allows the operator to maintain two images in their focal view at one time. In FY 2010, 235 units were purchased and deployed to field operations.
- **Long Range Thermal Imaging Kit (FLIR Recon III):** provides thermal imaging that allows the operator to detect images up to five miles away in a dark environment. This kit is equipped with an internal global positioning sensor, digital magnetic compass, a laser rangefinder allows the operator to track a target, and a split screen function allows the operator to maintain two images in their focal view at one time. In FY 2010, 107 units were purchased and deployed to field operations.
- **Recon III Remote Viewing Kit:** supports the Recon III long-range thermal imaging kit on a pan and tilt system affixed to a tripod. The full capabilities of the Recon III are remotely transmitted to an operator who is monitoring and controlling the device from a distance away. In FY 2010, 40 units were purchased and deployed to field operations.

- **Portable Photovoltaic Power Packs:** provides an alternative power source for the FLIR Recon III, Recon Lites, and the Remote Viewing Kit. The portable photovoltaic power packs harness green energy from the sun and convert it to usable energy. In FY 2010, 145 units were purchased and deployed to field operations.

During FY 2010, operational tempos required the procurement of more technological resources to be utilized in field operations. As CBP continues to operate in an ever-changing and dynamic threat environment, agents and officers will be supported by advancing technology to provide the greatest degree of officer safety and situational awareness possible.

Immigration Advisory Program

The Immigration Advisory Program (IAP) is a component of CBP's layered border strategy to prevent terrorists, high-risk, and improperly-documented travelers from boarding U.S.-bound commercial flights. The goal of IAP is to:

- Enhance border and air travel security through the pre-flight identification and denied boarding of high-risk passengers destined to the United States;
- Disrupt alien smuggling and human trafficking air routes;
- Combat the proliferation of fraudulent travel documents used by terrorists and alien smuggling organizations; and
- Prevent improperly documented passengers from traveling to the United States.

IAP officers serve as on-site experts in U.S. entry requirements, provide document training to carriers, and use advance targeting and pre-departure passenger assessments to identify potentially high risk passengers without delaying, canceling, or diverting flights destined to the United States.

In FY 2010, CBP estimates that IAP saved air carriers $5,187,600 in fines and the U.S. Government $4,614,122 in avoided processing costs as a result of issuing 3,056 no-board recommendations for improperly documented travelers, confirming 607 NTC-P advance targets for passengers linked to derogatory information, and referring 51 fraud cases to host Government authorities and local law enforcement. Since inception in 2004, IAP has saved air carriers an estimated $17,449,660 in fines, and the U.S. Government $15,934,720 in processing costs as a result of issuing 10,610 no-board recommendations, confirming 1,079 NTC-P advance targets, and referring 312 fraud cases to host Government authorities and local law enforcement.

IAP initiated operations in Amsterdam and Warsaw in 2004. With expansion to Paris in FY 2010, IAP is operational at 10 locations in 8 countries, including Tokyo, London-Heathrow, Frankfurt, Seoul, Madrid, London-Gatwick, and Manchester. In FY 2010, CBP built upon the IAP concept by launching the Joint Security Program (JSP) for travelers in Mexico City, partnering with the GOM to identify air passengers linked to terrorism, weapons, currency smuggling, and illegal narcotics.

The Intelligence Reform and Terrorism Prevention Act of 2004 (IRTPA) required CBP to identify foreign airports for potential IAP expansion. To this end, CBP conducts an annual analysis of embarkation data, assessing traffic volume, security related cases, inadmissible passengers, and fraudulent document use. To assist in identifying expansion locations, IAP has developed a strategic plan, which incorporates additional factors such as changes in illegal migration, air service alliances, and emerging threats. CBP manages program growth and the use of resources by focusing on the highest-risk locations. CBP will implement the program in additional locations as opportunities emerge.

Border Safety Initiative

The Border Safety Initiative (BSI) was initiated in June of 1998, building on the longstanding public safety and humanitarian measures practiced by the U.S. Border Patrol. The primary objective of the BSI is the reduction of injuries and prevention of deaths along the southwest border region. Over the past several years, unscrupulous alien smugglers have moved migrants into more remote areas with hazardous terrain and extreme conditions. In particular, the focus of the BSI is to inform potential migrants of the hazards of crossing the border illegally and to respond to those who are in a life-threatening situation. Through the BSI, OBP works closely with the GOM to discourage illegal crossings and to identify those who have perished in the desolate border terrain.

Western Hemisphere Travel Initiative

The Western Hemisphere Travel Initiative (WHTI) is the joint DOS and DHS plan to implement a key 9/11 Commission recommendation and the statutory mandates of the IRTPA. WHTI has established document requirements for travelers entering the United States who were previously exempt, including citizens of the United States and Canada.

WHTI was implemented for air travel at a select group of airports on January 23, 2007. Compliance has been, and continues to be, extremely high (more than 99.9 percent). WHTI secure document requirements were successfully implemented on June 1, 2009 at all of the Nation's land and seaports. The compliance rate of United States and Canadian citizens queried while entering the United States with WHTI-compliant documents remain high and continue to increase, averaging nearly 96 percent since implementation. The compliance rate increases to more than 98 percent on the northern border.

Under WHTI, RFID technology and next generation license plate readers were deployed to the top 57 high volume land ports covering approximately 97 percent of the land border traffic. There are currently more than 7,000,000 RFID-enabled WHTI compliant secure documents in the hands of travelers, which include the passport card, enhanced driver's license, and the trusted traveler card. These facilitative technologies are playing an integral role in improving efficiencies and the effectiveness of the inspection process at the land border.

During FY 2010, CBP continued outreach and communication efforts to increase the use of RFID documents and general awareness of travel requirements. CBP continues to engage Native American tribes in discussions on the development of enhanced tribal cards and have five memoranda of understanding with different tribes to develop enhanced tribal cards.

CBP has deployed the WHTI technology solution to innovative inspection booth configurations, including high/low booths to process both commercial and passenger vehicles, as well as new and small port locations. The deployment of new traffic management LED signs to ports with more than three lanes continues. The review and pilot of accurate wait time technology is advancing.

A new software capability, deployed to all land border ports under WHTI, greatly enhances targeting and intelligence gathering by linking drivers, passengers, and vehicles together in an entry package. This has contributed to an increase in the effectiveness of the inspection process by increasing enforcement actions.

For FY 2011, CBP will continue to enhance document security, increase information sharing among partners, and deploy the necessary resources to secure and protect the border. The strategic focus for the future will be on integration efforts through WHTI technical enhancements in pedestrian, inbound, Border Patrol checkpoints, and outbound enforcement operations.

Capacity Building

CBP is committed to a number of international initiatives aimed at facilitating legitimate travel and trade. CBP continues to collaborate and enhance its partnership with the following nations/international organizations: Canada, China, Mexico, the World Customs Organization (WCO), and the European Union. CBP's international capacity building efforts are designed to improve international relationships and enhance border security by assisting in the adoption of best practices and the development of infrastructure that will allow foreign partners to keep pace with changes in the global environment, while securing the smooth and safe flow of people and goods.

CBP supports the WCO's Framework of Standards to Secure and Facilitate Trade (SAFE) by sharing best practices and implementing training modules to protect the global supply chain from the threat of terrorism. To this end, CBP participated in the WCO Policy Commission and Council Sessions (June 2010) and ensured successful integration of US security filing 10+2 elements in the WCO SAFE. This integration will provide authoritative global guidance on supply chain security to reflect contemporary practices in line with those of the United States.

CBP's international capacity building efforts are focused on the following areas: international narcotics and crime control; non-proliferation; export control and related border security; commercial enforcement operations; and private sector partnership programs. Each program begins with a border security assessment designed to determine the type of training and/or equipment needed to improve operations within the host foreign country. Additionally, the assessments provide the host Government with a better understanding of their border control vulnerabilities.

To address the identified vulnerabilities, CBP has established joint partnerships with international organizations, Federal Government agencies, and other foreign partners. Funding for these programs is provided by a number of entities including the International Law Enforcement Academy, DOS's Bureau of International Security and Non-proliferation, the US Agency for International Development (USAID), DOD, DOE, and the Defense Threat Reduction Agency. During FY 2010, CBP provided capacity building support in more than 91 countries, and 464 capacity building sessions for foreign partners, including 23 courses at the International Law Enforcement Academy.

Mexico Initiatives

CBP is heavily involved in a number of high-profile initiatives with partners such as the Bilateral Strategic Plan, Border Violence Protocols, and Joint Targeting Initiative. The most prominent of these has been the Mexico Merida Initiative, a multi-year assistance plan that has provided more than $1.9 million in U.S. Government funding during FY 2008, FY 2009, and FY 2010 to bolster customs and law enforcement infrastructure in Mexico. DHS has also asked CBP to partner with other agencies on southbound border initiatives, focusing on bulk cash and weapons smuggling into Mexico, to help curtail the negative impact of these and other illicit activities.

Implementation of the CBP Trade Strategy

The CBP Trade Strategy is a framework for management of the agency's trade mission. In FY 2010, CBP began development of expanded performance measures based on the Trade Strategy, which establish a linkage with the CBP Priority Trade Issues. These measures will be implemented in FY 2011. They will provide a more complete picture of how the various trade programs contribute to full implementation of the CBP Trade Strategy.

CBP implements its Trade Strategy by focusing on the management and enforcement of designated Priority Trade Issues (PTI), such as Antidumping and Countervailing Duties (AD/CVD), Textiles, and Free Trade Agreements (FTA).

For example, CBP and the DOC have continued to work very closely to improve the collection of AD/CVD. Since February 14, 2010, AD/CVD entry summary processing and case management, message and inquiry functionality have been available in the Automated Commercial Environment (ACE). These programming enhancements will improve the processing of AD/CVD entries and provide more detailed information to ensure timely liquidation and assessment of appropriate AD/CVD.

This new functionality is an improved enforcement tool for ensuring compliance and monitoring circumvention of appropriate AD/CVD. Efficiency is also increased because the user can now create a principal case and have that information replicated to all related company cases. This includes capturing events, citing the correct Harmonized Tariff Schedule (HTS) numbers, updating rate tables, updating bond and/or cash deposit triggers and, most importantly, triggering the on/off functionality for suspension of liquidation.

In FY 2010, CBP completed Textile Production Verification Team (TPVT) visits to eight countries to validate factory production and the accuracy of trade preference claims. A total of 189 factories were visited, with 34 either closed or unable to show production, and 50 that could not support their trade preference claims. The potential revenue recovery for those factories with unsubstantiated trade preference claims is estimated at more than $6 million.

CBP's Office of International Trade (OT) will be implementing a new PTI for FY 2011 that focuses on trade agreement claims for non-textiles and apparel. CBP will initiate a comprehensive risk-based trade agreements enforcement plan that will identify areas of significant non-compliance and develop an appropriate enforcement plan to address these risks. CBP will also work with domestic and international stakeholders to facilitate legitimate trade, while effectively communicating the terms of our FTA and preferential trade legislation. CBP is strengthening trade agreement expertise in the field by providing training courses to its import specialists, auditors, and account managers.

Importer Self-Assessment

Importer Self-Assessment (ISA) provides the opportunity for importers who have made a commitment of resources to assume the responsibility for self-monitoring their compliance in exchange for less intrusion by CBP. The primary objective of the program is for the company to maintain a high level of trade compliance through an open CBP-trade partnership and cooperative interchange of information and ideas. CBP currently has 207 importers participating in the ISA program, which represents approximately 20 percent of the total import value into the United States.

Advancing Import Safety

In FY 2010, CBP established the Import Safety Commercial Targeting and Analysis Center (CTAC) in Washington, D.C. It features CBP, ICE, Food and Drug Administration (FDA), Consumer Product Safety Commission (CPSC), and Department of Agriculture personnel working side-by-side to share agency information that better enables CBP to target and stop unsafe imports before they enter the commerce of the United States.

Establishment of the CTAC provides an avenue for agencies with import safety authorities and interests to streamline national operations, share targeting expertise, tools, and best practices while coordinating with members of the trade and other parties interested in the facilitation of legitimate shipments. This allows a more targeted response to public safety threats while simultaneously reducing the redundancy of duplicative examinations.

In FY 2010, interagency import safety operations covered a wide variety of public health and safety risk areas including All Terrain Vehicles (ATV), toys, children's garments, and candy products with embedded objects. As import safety remains a highly visible topic, we anticipate an increase in response efforts, operations, information sharing, and interagency coordination among those OGAs responsible for import safety.

In April 2010, CBP signed its first CTAC data sharing Memorandum of Understanding (MOU) with CPSC to enable interagency sharing of enforcement data to enhance targeting for import safety violations. In October 2010, CBP, CPSC, and FDA co-sponsored an interagency conference on import safety which included ten agencies demonstrating their commitment to a set of import safety principles. Additionally, a joint MOU was signed between CBP, ICE, CPSC, and the U.S. Department of Agriculture's Food Safety Inspection Service (FSIS) and APHIS covering the transitive sharing of information among all agencies located at the CTAC. CBP looks forward to further expanding the CTAC to include additional OGAs and sharing more import safety data among them.

CBP has also worked closely with OGAs to enhance enforcement of import safety violations at the border. In FY 2010, CBP coordinated with CPSC to implement CPSC's new detention policy and procedures. CBP also facilitated the co-location of border officials from CPSC at multiple POEs. CBP will continue to work with OGAs to facilitate the co-location of additional border officials and to explore potential detention authorities by the OGAs.

Also in FY 2010, CBP continued to collaborate with OGAs to incorporate import safety components into CBP's existing trade partnership programs. CBP worked with CPSC on the Importer Self-Assessment Product Safety pilot program (ISA-PS) that was announced in October 2008. The ISA-PS pilot is jointly administered by CBP and CPSC, and builds upon CBP's existing ISA program by adding a product safety component. This voluntary program addresses product safety compliance and provides recognition and benefits to participating importers. CBP will continue to work with PGAs to further expand CBP's trade partnership programs to include additional import safety components, and to continue initiatives including import safety audits and import safety special operations to ensure that unsafe products do not enter U.S. commerce.

Strengthening Protection of Intellectual Property Rights

Intellectual Property Rights (IPR) has become an increasingly prominent enforcement priority for CBP, consistent with its mission of helping to protect the U.S. economy.

In FY 2010, CBP in coordination with the Intellectual Property Enforcement Coordinator (IPEC), began development of an IPR Enforcement Strategy 5-Year Plan to improve the protection of IPR through technological changes, process redesigns, and better cooperative efforts between CBP and all of its IPR stakeholders. As part of the 5-Year Plan, CBP has begun development and testing of a new Intellectual Property Rights Predictive Risk Targeting Model designed to improve the identification and seizure of volatile merchandise in ocean shipments. This new model uses a more advanced technique to improve targeting by examining historical IPR seizure information and statistical algorithms. Once the testing and evaluation of this model is

Counterfeiting DVDs is a violation of intellectual property rights.

completed successfully, the model may be expanded to all seaports, and the targeting techniques will be applied to risk models for other modes of transportation.

Also in FY 2010, CBP began evaluation of a Commercial Operations Advisory Committee (COAC) proposal to allow the trade community to voluntarily disclose IPR violations to CBP, as is done for other violations per the prior disclosure clause in 19 U.S.C. 1592. CBP is weighing the legal and operational implications of such a change, which, the COAC asserts, could provide useful intelligence that could help CBP prevent future IPR violations.

Reducing CBP Exposure to Revenue Loss/Risk

With the growth in imports and in AD/CVD cases in recent years, CBP has seen some increase in its exposure to revenue loss. To stop the circumvention of U.S. trade laws, CBP identifies high-risk areas and acts to enforce U.S. trade laws and collect proper revenue. Actions include entry reviews, post audits, and necessary cargo examinations.

CBP coordinates internally and with other OGAs to ensure that enforcement actions are consistently applied. Events are uniformly recorded, results are integrated, and trade information is shared across the enterprise. CBP provides field personnel with the knowledge, tools, and training to identify and address violations related to PTIs. CBP's Fines, Penalties and Forfeitures (FP&F) Officers and Seized Property Specialists take enforcement actions that deliver immediate impact to non-compliant importers and help deter future non-compliance.

In FY 2011, CBP will focus resources on refining its bonding policies and using its authority to require additional security from importers to cover revenue loss risks. CBP will also enhance its training in high-risk areas, including value, and address the risk of double invoicing. CBP will work to improve revenue processes and to ensure smooth integration of modern business practices.

Management by Account

In FY 2010, CBP developed several pilot projects aimed at improving both trade facilitation and trade compliance. Projected for implementation in FY 2011, these pilots include "Centers of Excellence and Expertise" and a new Account Executive position. Both of these innovations are designed to improve the way CBP interacts with the trade community and uses its understanding of account practices to reduce system redundancies and improve compliance.

Modernizing Trade Policies and Processes

CBP has an ongoing responsibility to ensure that its policies and practices are as effective as possible. This includes using more modern tools to achieve efficiencies both for the Government and for the trade community. For example, in FY 2010 CBP approved plans to modernize the CBP licensing of Customhouse Brokers. CBP will streamline this process through expanded use of electronic application procedures, record storage, and an expedited in-house vetting of applicants' backgrounds and interviewing of applicants. CBP is also exploring opportunities for other modernization projects through the ongoing work of the Trade Integrated Planning and Coordination Cell (TIPCC), which is focusing on a number of trade modernization initiatives, including Centers of Expertise and a new Account Executive position that will be piloted in FY 2011.

International Trade Data System

CBP has reiterated its commitment to advancing the International Trade Data System (ITDS) program, the "single window" vision that would provide all parties involved in trade and transport access to standardized information and documents with a single entry point to fulfill all import, export, and transit-related regulatory requirements. CBP is pursuing three near term measures as a tangible demonstration of this commitment.

- **Measure 1:** CBP will add data elements required by other agencies to the major import reporting messages (manifest, entry, and entry summary);
- **Measure 2:** CBP will develop the capability to accept the transmission of imaged forms (such as pdf files), which may currently only be submitted on paper; and;
- **Measure 3:** CBP will complete its plans for ITDS and make decisions related to the technical interoperability with other agencies' systems in order to allow other agencies to continue with their plans for using ITDS and investing in automated systems to work with ACE/ITDS.

Implementation of the National Annual Audit Plan

The FY 2010 National Annual Audit Plan was developed to provide the appropriate balance of audit support for trade security, facilitation, enforcement initiatives and import safety in keeping with the mission intent and goals of CBP. The plan was designed to address the CBP PTIs and included coverage of issues such as revenue protection, IPR, agriculture, import safety issues, AD/CVD, user fees and supply chain security reviews of non-CTPAT member companies. Results for FY 2010 include:

- 379 audits completed.
- Approximately $49.7 million in recommended recoveries, including user fees, identified in all audits completed.
- Approximately $33.8 million in collections from current and prior audits issued, including penalties.
- 267 audits in progress at the end of the fiscal year.

Looking Ahead

CBP continues to expand and enhance mission effectiveness by its forward-looking approach to secure America's borders and the vitality of our economy.

Unmanned Aircraft System

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) program in 2005. The UAS provides an efficient and reliable supplement to existing detection and intelligence gathering technologies. Remotely-piloted aircraft have a significant advantage over manned aircraft with the capability to fly up to 20 operational 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 a situational awareness and officer safety capability that is unparalleled.

CBP uses UAS technology for intelligence gathering.

In March 2008, OAM hosted a Joint Maritime UAS demonstration at Tyndall Air Force Base, Florida. The event was the culmination of more than a year's work to deploy and demonstrate the integration of a variant of the Predator B UAS within OAM and USCG maritime operations. The demonstration took place in the northern Gulf of Mexico and the Florida Straits and involved air and marine response assets from OAM and USCG. This Gulf Coast demonstration validated the usefulness of integrating a suite of sensors such as radars, electro-optical sensors, and an Automated Identification System (AIS) on a UAS and applying it in an operationally relevant environment. In July 2008, OAM hosted a Joint Requirements summit to determine the required capabilities of sea search radar for the maritime variant. During FY 2008, OAM also conducted test and evaluation flights along the northern borders of the United States. Of the six UASs funded in FY 2006 and FY 2007, the sixth was delivered in January 2009. The FY 2009 enacted budget provided sufficient funding for a seventh UAS, which is expected to be delivered in early 2011. The FY 2010 Supplemental Appropriation provided funding for two more aircraft.

Of the six operational UASs, three are assigned along the southwest border, based and operated from Fort Huachuca, Arizona, and two are assigned along the northern border, based and operated from Grand Forks Air Force Base, North Dakota. The sixth UAS is a maritime variant and is currently based and operated from Cape Canaveral Air Force Station, Florida. A seventh aircraft, configured as a maritime variant, is currently planned to be based and operated from Naval Air Station Corpus Christi, Texas.

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 restricted airspace, within the United States.

The UAS has proven extremely effective at responding to ground sensor alerts and classifying and identifying threats. The rapid response time and enhanced classification capabilities act as force multipliers and provide timely intelligence to field operators used to determine the appropriate response. Resources can then be dispatched based on a known threat to resolve the event in the most effective and efficient manner possible. The UAS also often orbits overhead to assist in directing agents on the ground, which enhances situational awareness at the point of interdiction, increases officer safety, and brings the event to a quicker resolution.

Outbound

CBP is also responsible for ensuring that travelers and commerce departing the United States comply with U.S. export laws and regulations. CBP's outbound mission is to interdict the illegal export of unreported currency (including proceeds from narcotics trafficking and other illicit activities); arrest fugitives; interdict illegal exports of firearms and ammunition; prevent international terrorist groups and rogue Nations from obtaining sensitive and controlled commodities; interdict stolen property, including stolen vehicles; and increase export compliance.

To perform this mission, CBP utilizes a "pulse and surge" strategy for inspecting people, cargo, and conveyances departing the United States through all airports, seaports, land border crossings, and at international mail/courier facilities. Pulse and surge operations allow CBP to conduct outbound enforcement action while remaining unpredictable to smuggling organizations to facilitate the flow of legitimate trade and travel.

The success of CBP's outbound mission will rely on its overall layered enforcement strategy. This strategy includes CBP officers utilizing their experience, deployment of currency/firearms canine teams, providing the officers with actionable information (e.g. through leveraging human and network intelligence), increasing cooperative federalism (i.e., working with other foreign, U.S. Federal, state, local and tribal law enforcement agencies), and use of various inspectional tools to assist in outbound operations. The mission on the southwest border will also benefit from planned upgrades and expansion to the existing License Plate Reader (LPR) program, outbound infrastructure improvement, and enhancements to outbound automated targeting systems. The LPR program and automated targeting system enhancements will increase CBP's capabilities to identify and interdict fugitives, persons of interests or contraband (i.e., unreported currency, firearms smuggling, stolen vehicles) before they depart the United States.

Security Filing (10+2)

The Importer Security Filing and Additional Carrier Requirements rule (Security Filing10+2) became effective on January 26, 2009, as an Interim Final Rule. It adds an additional layer to CBP's security and enforcement strategy for securing U.S.-bound ocean cargo. Security Filing 10+2 joins the 24-hour rule, the C-TPAT program, and CSI in collecting advanced information to improve CBP's targeting efforts. The advance data provided by the Security Filing 10+2 rule (e.g. , importer entry data, vessel stow plan, and container status messages) will increase the transparency of all parties involved in the international container shipping supply chain and allow CBP targeting specialists to identify risk factors earlier in the process. Under this new rule, the importers are responsible for supplying CBP with ten trade data elements 24 hours prior to lading, while the ocean carriers are required to provide their vessel stow plans no later than 48 hours after departure and their container status messages no later than 24 hours after creation or receipt.

Electronic System for Travel Authorization

Electronic System for Travel Authorization (ESTA) allows CBP to effectively screen information to determine whether an alien presents a security risk or is eligible for travel to the United States. Determining eligibility for Visa Waiver Program (VWP) travel before travel will reduce the number of instances in which a traveler who does not meet VWP criteria arrives in the United States and is subsequently denied admission. In such cases, the traveler and the carrier incur an additional expense as an immediate return to the country of origin is required.

CBP screens travelers against appropriate databases to identify potential threats to the security of the United States. Those travelers determined to be inadmissible as a result of this screening are denied a travel authorization via ESTA and as a result are unable to travel to the United States under VWP. Those persons denied via ESTA are given the opportunity to apply for a visa to travel to the United States at the nearest U.S. Embassy or Consulate.

Currently, the ESTA website appears in English and 22 other languages and has the full capacity to process the total volume of Visa Waiver travelers arriving to the United States. ESTA became mandatory for all VWP travelers in January 2009. In January 2010, CBP began enforcing compliance by requiring airlines to verify ESTA status before boarding passengers. At the end of 2010, the compliance rate for travelers was more than 99 percent.

In addition to the ESTA web-based application, CBP developed the technical solution to automate the *Nonimmigrant Alien Arrival/Departure* paper form (I-94W). This will allow VWP travelers to apply for a travel authorization via the ESTA website without having to fill out the paper form I-94W for entry into the United States. In June 2010, CBP successfully eliminated the I-94W in the air and sea travel environment. In FY 2011, ESTA will be required to implement a fee for service.

Model Ports of Entry Program

The Model Ports Program strives to create a more efficient international arrivals process to facilitate and promote travel to the United States while improving security. Program elements include queue management, new directional signage, instructional videos, and local working groups consisting of CBP and travel stakeholders.

The Model Ports pilot was initiated in 2007 at Dulles and Houston International Airports. Using lessons and best practices learned, the Model Ports Program was officially expanded to include the top 20 ports with the highest number of foreign visitors in 2008. They include: Atlanta, Boston, Dallas/Ft. Worth, Detroit, Ft. Lauderdale, Honolulu, Las Vegas, Los Angeles, Miami, Newark, Chicago, New York (JFK), Orlando, Philadelphia, Sanford

(Florida), San Juan, San Francisco, and Seattle. In FY 2008, Congress appropriated $40 million and 200 additional CBP officers to the Model Ports Program.

CBP has developed an informational video that contains practical information about the entry process. The video will be played along with Walt Disney Parks and Resorts' "Welcome: Portraits of America" video to welcome visitors at Model Ports. CBP has also revised its signage to provide international travelers with information and guidance through the entry process. The signage was delivered in October 2008 and the new video was completed in April 2009.

CBP, DHS, DOS, airlines, airports, and the travel industry continue to work together to analyze the entry process and improve customer service. Working groups are being formed at the Model Port airport facilities to analyze and set goals for wait times and to formalize special queuing areas for diplomats and passengers who require special processing to ensure the most efficient use of facilities and available resources. Additional queuing alternatives will be examined and tested. CBP began collecting wait times from the 20 Model Ports in April 2008. Wait times for all of the Model Ports are available on CBP's Wait Time page at **http://apps.cbp.gov/bwtl** on CBP.gov.

Advances for Improved Internal and External Border Patrol Communications

OBP created the Communications Division in FY 2008 to develop a strategic and directed communications effort across both the internal and external spectrum of audiences and to add significant value and benefit to the overall communication efforts.

The Communications Division encourages employee participation and promotes effective leadership communication, both within and outside the agency. This is accomplished by presenting a clear and focused understanding of the OBP's mission, strategy, methods, goals, and accomplishments. Effective communication clarifies expectations and provides feedback, which promotes teamwork and a performance-driven management. The Communications Division currently consists of three branches that coordinate their efforts to reach internal and external audiences. As a result of the communication efficiencies developed, the CBP OFO modeled their Communications Management Office from best practices observed within this division.

The Information Coordination Branch (ICB)

ICB is responsible for maintaining and supporting both internal and external websites, managing Headquarters correspondence, and providing content and editorial support to CBP Human Resource Management (HRM) web-based publications that are geared to retain applicants' interest during the sometimes protracted hiring process. New initiatives involve leveraging current and emerging technologies to develop efficiencies in correspondence tracking, electronic document management, and mandatory statistical reporting. ICB's efforts include a significant increase in both internally and externally directed intranet messaging and written correspondence to numerous external stakeholders.

The Field Communications Branch (FCB)

FCB was established as a direct response to an identified need to provide enhanced and coordinated communication between U.S. Border Patrol Headquarters in Washington, DC, and employees in field locations throughout the United States. FCB established this communication with the Ask HQ feature on CBPnet Secure website. This feature is essentially an open forum that allows field personnel to raise concerns, receive policy clarification, and ask questions about Border Patrol related matters. Personnel assigned to the FCB visited 16 sectors and conducted focus group meetings with agents. These meetings allow the FCB to modify communication methodologies and monitor current communication efforts in order to maximize mission effectiveness.

The success of the Headquarters level FCB has led to the establishment of sector level FCBs in Tucson, San Diego, and El Paso Sectors. The sector level FCBs increase connectivity and deal exclusively with questions and local policies specific to that sector. The FCB has instituted a chain learning concept whereby agents are temporarily detailed to the Headquarters FCB and returned to their duty station while remaining FCB field contacts. This system has facilitated communications at all levels and establishes long-term connectivity between OBP headquarters and field organizational components. FCB supplied equipment in the way of cameras, accessories, and software to field offices allowing them to capture events of potentially national interest and submit them to Headquarters for distribution throughout the U.S. Border Patrol. The branch also conducted advanced training sessions designed to maximize the effectiveness of field communications assets.

The FCB facilitated the installation of Information Display Systems (IDS) at Border Patrol sectors and stations throughout the country. Each IDS is composed of a television monitor with an integrated computer hard drive that continuously rotates through a series of informational slides. The slides keep field agents and other operational personnel aware of current events, important policy updates, and safety bulletins. FCB is responsible for creating, managing, and monitoring the information that is displayed on all systems, nationwide.

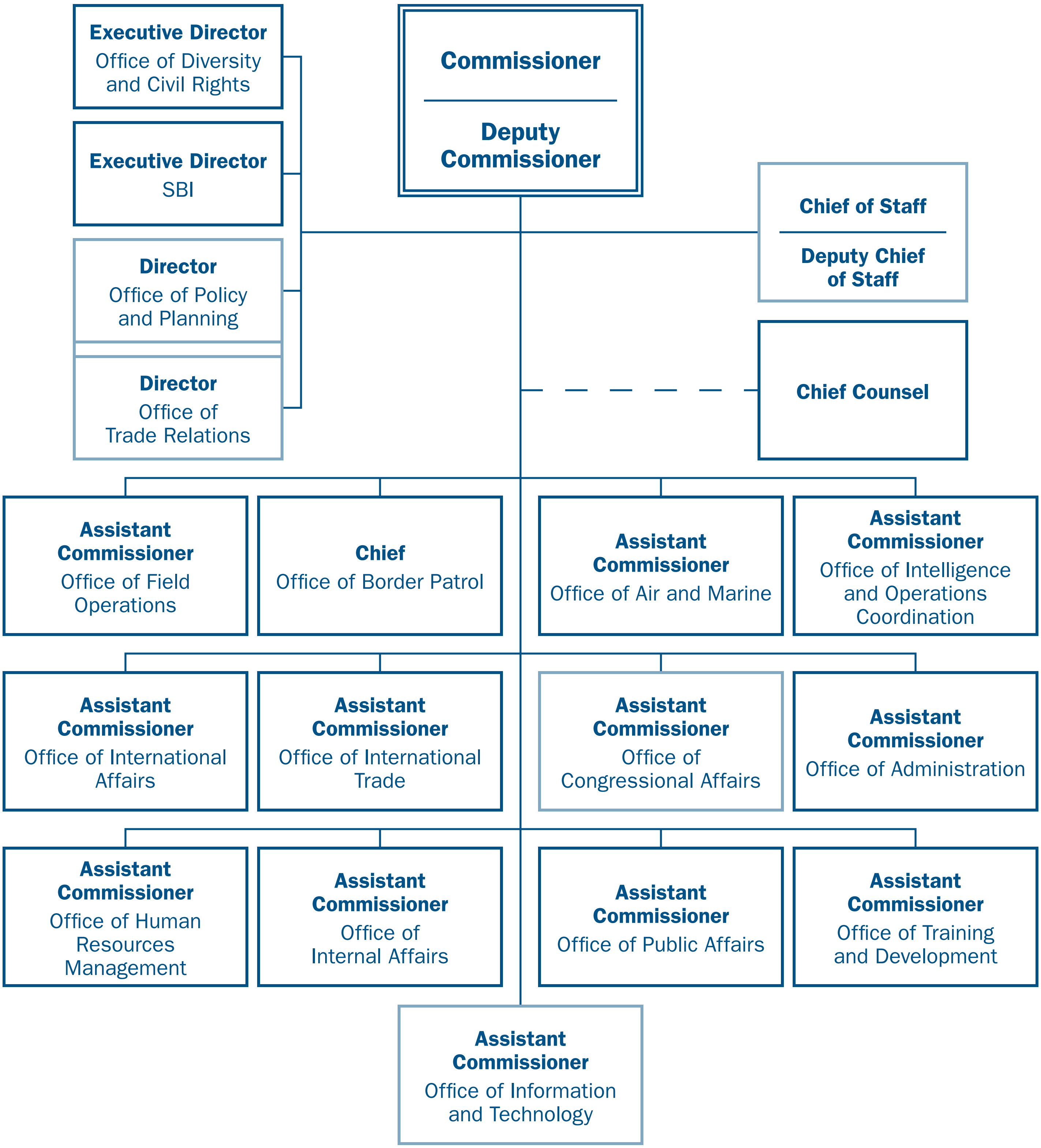
The External Communications Branch (ECB)

ECB provides support and assistance regarding OBP external messaging to Congress, other agencies, and the general public, enhancing relations while serving as a liaison with external stakeholders at all levels. The ECB helps to manage external information flow and coordinates with other CBP and DHS communication components, as well as Congressional committee assignments on Capitol Hill. The ECB plans and develops proactive communication plans for external audiences to enhance communication efforts for Border Patrol operations while responding publicly to critical issues through appropriate channels.

Summary

CBP will continue to integrate state-of-the-art technologies with traditional security infrastructures at U.S. POEs and along our Nation's borders and to work in collaboration with the trade community and foreign Governments to secure the United States from terrorists and their weapons while facilitating world commerce.

CBP Organization



Headquarters

Office of the Commissioner: On March 27, 2010, Alan Bersin was appointed by President Barack Obama as Commissioner of CBP and is responsible for securing, managing, and controlling our Nation's borders. As Commissioner, Mr. Bersin advances CBP's priority mission of preventing terrorists and terrorist weapons from entering the United States while facilitating legitimate trade and travel.

Deputy Commissioner: David V. Aguilar was named Deputy Commissioner of CBP on April 11, 2010. Mr. Aguilar 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.

Chief of Staff (COS): Serves as the direct liaison to DHS for all agency issues. The COS assists the Commissioner in formulating and implementing policies through coordination with other CBP office components, DHS, and OGAs. The COS provides advice and counsel to the Commissioner in defining priorities to accomplish CBP mission and goals.

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. The OCC provides legal advice to and legal representation of CBP officers in matters relating to the activities and functions of CBP.

Office of Diversity and Civil Rights (DCR): Ensures compliance with the civil rights statutes, regulations, and executive orders governing Federal employment without regard to race, color, religion, sex, age, national origin, sexual orientation, physical and mental disability, and/or reprisal. DCR provides a framework for the formulation, implementation, and evaluation of CBP policies and programs. DCR also formulates and implements policies and programs in the areas of diversity and cultural awareness, dispute resolution, Equal Employment Opportunity (EEO) complaint processing, and EEO and civil liberties compliance.

Office of Secure Border Initiative (SBI): Is accountable for the development and oversight of the SBInet and transportation programs. Established in FY 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 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. OPP also coordinates with individual offices and programs inside and outside the agency to develop specific strategies and planning guidance that support CBP's mission.

Office of Trade Relations (OTR): Serves as the primary contact to the international trade community for advancing their issues and ideas to CBP leadership, and as the primary channel for CBP to advance its agenda to the trade community. OTR is also an objective, independent problem resolution resource for the international trade community. As the designated representative for the agency, OTR is responsible for promoting compliance with the Small Business Regulatory Enforcement Fairness Act (SBREFA).

Component Organizations and Field Structure

CBP is organized into 13 separate offices, each of which reports directly to the Commissioner. The mission of each office is described briefly below:

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 their weapons from entering the United States at the POEs. OFO maintains programs at 20 field operation offices; 331 POEs, 15 preclearance stations in Canada, the Caribbean, and Ireland; and 58 CSI ports worldwide. A Director of Field Operations heads each field 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 Border Patrol (OBP): Serves as the CBP law enforcement organization with the primary responsibility of 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 Air and Marine (OAM): Protects the American people and 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. OAM's core competencies include air and marine interdiction, air and marine law enforcement, and national border domain security. OAM further supports DHS missions such as the response and recovery to natural disasters and terrorism.

Office of Intelligence and Operations Coordination (OIOC): Is responsible for the entire intelligence cycle, including planning, collecting, processing, producing, and disseminating of all sources of information and intelligence in support of CBP's mission. OIOC coordinates national incident response and intelligence driven special operations that require collaboration between CBP offices. OIOC is responsible for directly supporting the Commissioner and senior CBP leadership by obtaining, analyzing, and disseminating intelligence in a timely manner to help CBP carry out its primary mission. OIOC directs and efficiently manages an integrated intelligence capability to ensure that frontline operators and senior leadership have the value-added intelligence required to drive operations and support policy.

Office of International Affairs (INA): Is responsible for coordinating and supporting CBP's foreign initiatives, programs, and activities. INA transforms policies into actionable initiatives. To support CBP's mission, INA establishes essential partnerships with U.S. Government agencies, foreign administrations, and international organizations. INA implements programs and initiatives that promote border enforcement best practices and capacity building. INA also negotiates international agreements and works to strengthen multi- and bi-lateral relationships that facilitate legitimate travel and trade. INA's organizational structure is composed of a Headquarters office in Washington, DC, with attachés, representatives, and advisors in embassies, consulates, and counterpart agencies in 27 nations.

Office of International Trade (OT): Provides unified strategic direction for trade policy and program development. CBP OT directs national enforcement responses and takes punitive actions taken against companies participating in predatory trade practices, including textile transshipment and intellectual property rights infringement. OT directs CBP risk-based programs designed to detect and prevent the importation of contaminated agricultural products and goods that present health or safety risks, and products requiring protection from unfair trade practices. OT streamlines the flow of legitimate shipments and fosters corporate self-governance to achieve compliance with trade laws, regulations, and international trade agreements. Finally, OT provides the legal tools to promote facilitation and compliance with customs, trade, and border security requirements by issuing CBP regulations, binding rulings and decisions, compliance publications, and offering training and outreach on trade laws and regulations.

Office of Congressional Affairs (OCA): Coordinates all CBP congressional and legislative activities to ensure that the full range of policy, operational, technical, and programmatic aspects are appropriately considered. These functions and activities include, but are not limited to, work performed in the congressional arena, relationships with Members of Congress and their staffs, and requests for information, briefings, meetings, hearings, tours, or other forms of assistance received froms Congress.

Office of Administration (OA) and Chief Financial Officer (CFO): Oversees all financial operations, procurement, acquisition, asset management, and budget activities within CBP. OA is responsible for administering $12.9 billion that is budgeted annually for law enforcement and trade operations and processing collections of $32 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): Manages a centralized human resources program for all CBP employees nationwide and overseas. HRM supervises all matters involving human resources, including organizational structure, staffing, pay administration, benefits, workplace safety, personnel actions, and employee relations. HRM also assists employees by providing recruitment services, retention support, benefits information, and employee assistance programs.

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 worldwide, round-the-clock secure, stable, and high-performance Information

Technology (IT) infrastructure while supporting tactical communications, scientific solutions, and forensic services. OIT implements and supports CBP's IT, automation, and technology strategies. OIT personnel manage all computers and related resources, including all operational aspects of the Computer Security Program. OIT 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 Internal Affairs (IA): Serves as the designated Office of Security for CBP and manages a wide range of investigative and security functions and programs, including applicant and employee background investigations and clearances; employee integrity and misconduct investigations; credibility assessments including polygraph examination; operational field testing; integrity awareness and corruption detection; deterrence and prevention of internal corruption; physical, informational, operational, industrial and internal security; management inspections; audit liaison; and monitor cyber security counter intelligence policies, instructions, procedures, control systems, networks and methods. IA's mission is clear and critically important - to promote the integrity and security of the CBP workforce.

Office of Public Affairs (OPA): Communicates CBP's mission and operations to the agency's chief stakeholders, which includes 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. CBP maintains a public website at ***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): Is responsible for the centralized leadership and direction of all CBP training programs for the entire workforce. OTD ensures that all training supports the CBP mission and strategic goals, and that the workforce is prepared to meet the challenges faced in the performance of mission critical operations by establishing CBP training standards and policies, leading the development, delivery and evaluation of training, and procuring the necessary tools.


ALASKA
HAWAII
GUAM
PACIFIC
MOUNTAIN
CENTRAL
BLAINE SECTOR
SPOKANE SECTOR
HAVRE SECTOR
GRAND FORKS SECTOR
SEATTLE
PORTLAND
SAN FRANCISCO
CHICAGO
LOS ANGELES
TUCSON
SAN DIEGO
EL PASO
HOUSTON
LAREDO
SAN DIEGO SECTOR
EL CENTRO SECTOR
YUMA SECTOR
TUCSON SECTOR
EL PASO SECTOR
MARFA SECTOR
DEL RIO SECTOR
LAREDO SECTOR
RIO GR
VALLEY
PRECLEARANCE STATIONS
Aruba
Bahamas
Freeport
Nassau
Bermuda
Canada
Calgary
Edmonton
Halifax
Montreal
Ottawa
Toronto
Vancouver
Victoria
Winnipeg
Ireland
Dublin
Shannon
Revised 04/10


CENTRAL
EASTERN
GRAND FORKS SECTOR
DETROIT SECTOR
BUFFALO SECTOR
SWANTON SECTOR
HOULTON SECTOR
DETROIT
BUFFALO
BOSTON
CHICAGO
BALTIMORE
NEW YORK
CBP Headquarters
ATLANTA
HOUSTON
NEW ORLEANS
TAMPA
MIAMI SECTOR
MIAMI
NEW ORLEANS SECTOR
RIO GRANDE VALLEY SECTOR
LEGEND
CBP Headquarters
Office of Field Operations (OFO)
Field Office
Port of Entry (POE)
POE - RFID Enabled
POE - RFID & DCL
POE - Ferry
POE - Planned
POE - User Fee Airport
Office of Border Patrol (OBP)
Sector Headquarters
Border Patrol Station
Border Patrol Sector Boundary
Office of Air and Marine (OAM)
Operations Center
OAM Air Facility
OAM Unmanned Aircraft Systems (UAS) Facility
OAM Marine Facility
Other
Training Facility
National Finance Center (NFC)
CARIBBEAN AREA
RAMEY SECTOR
SAN JUAN

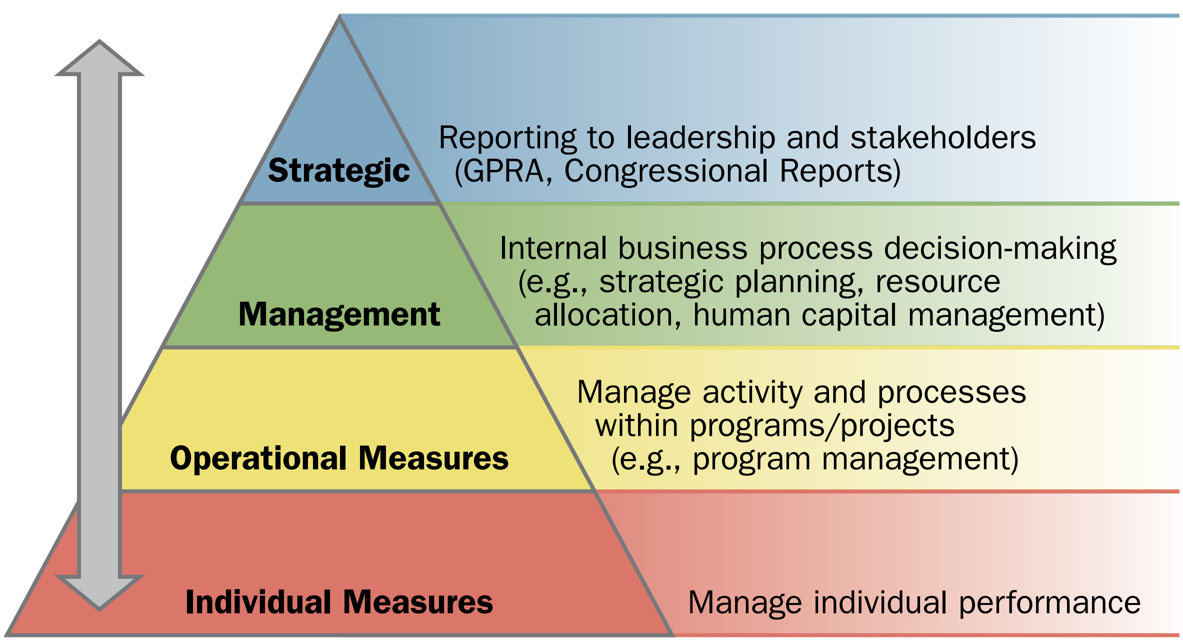
Performance Goals and Results

In FY 2009, CBP issued its updated Strategic Plan for FY 2009–2014. The plan serves as the foundation of an overall framework that links CBP strategic planning to the resource allocation process. This updated plan was designed to guide the strategic planning efforts of the various offices and programs within CBP, enable the development of effective strategies, and establish key priorities needed to achieve our mission and improve operational performance. Agency progress is described in this AFR.

CBP's Performance Management Framework (PMF) was developed to provide CBP with performance management and oversight capabilities that improve the efficiency and effectiveness of CBP performance-related programs, initiatives, and operations through improved performance measurement, analysis, and reporting.

Designed to meet statutory reporting and performance budgeting requirements established by the Office of Management and Budget (OMB) and the Government Performance and Results Act (GPRA), the CBP PMF is also aligned to optimally support internal management decision-making processes associated with agency-wide strategic planning, requirements determination, and resource allocation through the use of performance information in the execution of the annual Planning, Programming, Budgeting and Execution (PPBE) cycle and the management and improvement of the CBP programs and operations it supports.

The CBP Performance Measurement Hierarchy organizes performance measures into four sets, setting the foundation for performance measure presentation and reporting through a variety of formats and methods tailored to the decision-making processes they intend to serve. The illustration below outlines the CBP Performance Measurement Hierarchy.



The Performance Measure Hierarchy displays the four levels as strategic, management, operational, and individual measures. Strategic level measures manage and report accomplishment of CBP strategic goals and objectives, demonstrating the value our programs provide to the American people. Management level measures inform internal CBP decision-making processes, such as the PPBE process to determine program priorities, allocate resources, and monitor progress and performance. Operational level measures inform management of the effectiveness and efficiency of operations, creating a line of sight between operational activities and strategic goals. Individual level measures gauge the work of individuals' contributions to strategic plans and organizational units in order to enhance their performance. Strategic measures are integrated into Senior Executive Services (SES) employees' performance plans, which focuses CBP's senior leaders on achieving the organization's most important objectives. In FY 2010, 88 percent of targets associated with these measures were met.

CBP is also in the early stages of developing a directive, instruction, and enterprise-wide performance management tool. The directive and instructions are aimed at developing a standard procedure for ensuring accurate and timely responses to external and internal requests for performance measures. The performance management tool will serve as an instrument to consolidate CBP performance measures and increase the efficiency and consistency of the development, collection, monitoring, and reporting of performance information. The development of these policy documents and accompanying tool will continue to improve performance management.

Performance Management

CBP uses performance measures to determine if desired results are achieved, which indicates what the agency is accomplishing. These measures provide decision-makers with the necessary information on where they should place resources and strategic efforts to ensure program effectiveness. Performance measures also keep CBP focused on its key goals and cross-cutting enablers, help to justify budget increases, and provide focus for planning efforts. Additionally, performance measures establish results in reporting to the OMB and DHS, as well as responding to GAO and DHS OIG recommendations.

In the past, CBP performance measures have aligned to a program and strategic goal. With the creation of the FY 2009–2014 CBP Strategic Plan, the agency identified several strategic areas that would benefit from new outcome-based performance measures. CBP is developing a plan to establish these new outcome measures for its strategic goals and cross-cutting enablers. CBP will demonstrate program effectiveness in achieving our long-term performance goals through the continuous improvement of performance measures.

The strategic goals and objectives in the FY 2009–2014 CBP Strategic Plan provide a roadmap of activities for accomplishing the agency's important mission. CBP also recognizes that certain cross-cutting enablers affect CBP's ability to accomplish its mission and ultimately achieve its goals. Focusing on the cross-cutting enablers that cut across CBP's goals enables CBP to better outline strategies to these factors into action plans.

The three critical identified enablers are to:

- Leverage intelligence and information sharing to maximize the effectiveness of limited resources. CBP must leverage its frontline officers and agents to gain information that can be used to strengthen the Nation's security and to act upon intelligence that will help CBP carry out its critical border security mission.

- Maximize the power of partnerships. Partnerships have contributed greatly to CBP's progress in developing and implementing the various strategies that have improved border security and facilitation of global trade and travel. CBP's success relies upon the creation of enduring partnerships and maintaining open lines of communication domestically and internationally. Identifying, establishing, and enhancing or expanding beneficial partnerships will allow CBP to enhance the enforcement of and compliance with agriculture, immigration and other federally enforced laws and regulations.

- Promote achievement and a results-driven culture through an effective management infrastructure that fosters the highest standards of integrity. CBP fosters an environment designed to leverage state-of-the-art technologies, innovative strategies, and worldwide partnerships to protect America's communities and defend its borders. Through the development and implementation of the PMF that integrates investment management, resource management and program management, CBP will achieve a maximum return on investment on its top mission-focused goals.

CBP's cross-cutting enablers (improved intelligence and information sharing, expansion of partnerships, and management operations and organization effectiveness) are critical to CBP's success in achieving our mission and are primary considerations in developing strategies and action plans to implement the CBP Strategic Plan.

CBP is dedicated to continuously refining and improving its performance measures. The goal is to ensure that the data we report internally and externally is useful to senior executives tasked with making tough programming and funding decisions. Over the past year, programs continued evaluating their performance measures and aligning them to the new strategic goals and objectives outlined in the FY 2009-2014 CBP Strategic Plan. Also, in February 2010, the first Quadrennial Homeland Security Review (QHSR) was completed by DHS in an effort to provide a strategic framework that guides the activities of participants in Homeland Security toward a common end. In concert with DHS, CBP has engaged in a review of existing performance measures to ensure that the Department can accurately monitor and improve its performance towards meeting the missions, goals, and objectives outlined in the QHSR. Wherever gaps exist, new measures will be developed. In addition, CBP's performance measures' reliability and validity will be assessed each year through structured reviews, external feedback, and independent audits.

In June of 2009, the President launched a new initiative that asked agency leaders to identify and commit to a select number of priority goals that are of high value to the public. The intent was for the goals to be accompanied by ambitious, but realistic, targets to achieve within two years using existing resources. To ensure DHS delivers on its most important priorities, Secretary Napolitano identified eight High-Priority Performance Goals (HPPG). These goals focus on executing programs effectively and delivering meaningful performance improvements for the American people. Of the eight DHS HPPGs, CBP was designated as the lead for "Securing and managing our borders through the WHTI." The performance measures associated with this goal include:

- Percent of travelers entering the US with a secure document that establishes identity and citizenship;
- Number of travelers who have been issued a WHTI-compliant, technologically enhanced secure travel document that are RFID enabled;
- Average privately-owned vehicle (POV) processing time at land borders; and
- Average pedestrian processing time at land borders.

The FY 2010 results are provided below:

CBP HIGH PRIORITY PERFORMANCE GOAL (HPPG) RESULTS – FY 2010 RESULTS

#	HPPG PERFORMANCE MEASURE	FY 2010 Target	FY 2010 End of Year Results	Status
1	Percent of travelers entering the United States with a secure document that establishes identity and citizenship	96.3%	96.5%	Met
2	Number of travelers who have been issued WHTI-compliant, technologically enhanced secure travel documents (RFID enabled)	6,000,000	6,935,000	Met
3	Average POV processing time at land borders (decreasing seconds)	59.0	57.3	Met
4	Average pedestrian processing time at land borders (decreasing seconds)	23.0	23.0	Met

Management Assurances

Overview

To assist with DHS' compliance 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 No. 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 regarding activity that is significant at the DHS Consolidated level. Any material weaknesses are reported in the annual assurance statements to DHS. 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

In accordance with FMFIA and OMB Circular No. A-123, CBP has evaluated its management controls and financial management systems for the FY ending September 30, 2010. Through its annual self-assessment process and GAO and OIG reviews for FY 2010, we are reporting one material weakness and two instances of non-conformance. Because of corrective actions implemented by CBP, the material weaknesses in US-Visit Technical Security Issues, Financial Management and Reporting, and Property, Plant, and Equipment have been downgraded to reportable conditions while Business Continuity was remediated for FY 2010 reporting.

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 or destroyed. In 1993, deficiencies were reported in the controls to prevent excessive drawback claims. CBP's 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 strengthening of drawback controls is dependent on legislation to simplify the drawback process and to revise document retention requirements for the trade. CBP has recommended changes to the record-keeping requirements; however, support from the Trade community is crucial to proposing a statutory change. In addition, 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.

Financial Systems Security (previously Information Technology General and Application Controls)

For FY 2010, CBP assessed the application user access and configuration management controls over the CFO-Designated Financial Systems and external third party systems that process data for the budgetary management, payment management, and human resources/payroll management systems. As a result of this assessment, it was noted that one CFO designated system had several weaknesses with user access controls and user management policies and procedures, thereby resulting in a reportable condition.

Core Financial Systems

This non-conformance was first reported in 1993 when it was noted that CBP's core financial systems were not integrated and did not provide certain financial information for managing operations. The implementation of Systems, Applications, and Products (SAP) Release 3 in 2004 addressed a number of the issues under this weakness. The remaining open issue relates to the accounts receivable, custodial revenue, and drawback functionalities that will be provided by the Automated Commercial Environment (ACE) once it becomes the system of record for trade revenue activity and reporting. In addition, the Computerized Aircraft Reporting and Material Control (CARMAC) System and Customs Automated Maintenance and Inventory Tracking System (CAMITS) are not integrated with SAP at the transaction level. Reconciliations are performed to ensure accurate reporting.

DHS Financial Accountability Act

The *DHS Financial Accountability Act* of 2004 requires an assertion of internal controls over financial reporting. For FY 2010, the scope of CBP's assessment of internal controls over financial reporting included performing limited tests of operational effectiveness throughout FY 2010 and verification and validation of corrective action effectiveness as of September 30, 2010, over the following processes that were significant to the balance sheet and statement of custodial activity from a DHS Consolidated level:

Tests of Operational Effectiveness

- Payment Management
- Budgetary Resource Management
- Human Resource Management
- Entity Level Controls

Verification and Validation of Corrective Action Effectiveness

- Financial Reporting
- Budgetary Resource Management
- Property Management
- Revenue and Receivable Management
- Financial Systems Security

Based on the scope of this assessment, CBP provides reasonable assurance that internal controls over financial reporting were designed and/or operating effectively, with the exception of the aggregated issue of the material weakness, Custodial Revenue and Drawback Controls, as previously discussed. CBP management believes that sufficient compensating controls exist to provide assurance on the related financial statements and will continue to test and refine these controls.

Federal Financial Management Improvement Act (FFMIA)

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

Federal Information Security Management Act (FISMA)

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 FY 2010 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. CBP strives 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, which are designed to safeguard the integrity and quality of CBP's data resources.

Data Systems and Controls: Performance data for the planned performance measures are generated by automated management information and workload measurement systems and reports as a 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 FY 2010 and has determined, with reasonable assurance, that the data is complete, accurate, and reliable.

Audit of the FY 2010 CBP Consolidated Financial Statements: To assist the Department in complying with the *DHS Financial Accountability Act of 2004*, the DHS OIG engaged independent auditors, KPMG LLP, to audit CBP's consolidated financial statements (Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, Combined Statements of Budgetary Resources, and Consolidated Statements of Custodial Activity), hereinafter referred to as the "financial statements." The objective of the audit was to determine whether CBP's financial statements are fairly presented in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. The Independent Auditors' Report can be found on page 118.

Management Inspections Program

As part of its oversight role to promote the integrity, effectiveness, and efficiency of CBP programs and operations, the Office of Internal Affairs, Management Inspections Division (MID), performs management inspections that compliment operational monitoring activities performed by CBP component offices. As part of an integrated inspections program, MID performs office inspections, program evaluations, contract and other financial reviews, quality assurance and procedural deficiency reviews, follow-up reviews of audit recommendations made by the Government Accountability Office (GAO) and the DHS OIG, and other analytical assessments of operational or management issues.

MID's work reflects a proactive approach to identifying areas of potential vulnerability or conditions that could hinder the successful accomplishment of CBP operational goals and objectives. During FY 2010, MID initiated 11 management inspections, conducted 23 validation inspections; issued a total of 23 reports; and presented CBP executive managers with 62 recommendations to address operational, financial or administrative deficiencies identified during inspection activity.

Self-Inspection Program

The Self-Inspection Program (SIP), administered by the Office of Internal Affairs, MID, is one of a number of oversight mechanisms through which CBP monitors agency performance, the adherence to established operational requirements, and the accomplishment of strategic goals and program objectives. The SIP promotes management accountability and strengthens the oversight of programs and operations. SIP also helps CBP meet Federal internal controls requirements established by the Federal Managers' Financial Integrity Act, OMB Circular A-123, and the Department of Homeland Security Financial Accountability Act.

Under SIP, CBP managers and supervisors annually conduct self-assessment activities requiring them to verify that agency programs and operations are being implemented properly and effectively. In conducting the self-assessments, CBP managers report on the implementation of policies and procedures applicable to the operational, financial, and administrative functions reviewed through SIP.

During the SIP cycle, CBP managers complete, certify, and approve the self-inspection worksheets related to the functions and activities under their control. Responses indicating compliance and non-compliance with the requirements, along with information supporting the responses, are recorded in the web-based Self-Inspection Reporting System. Managers reporting non-compliance with, or inconsistent implementation of, policies and procedures are required to timely implement corrective action to resolve each deficient condition.

On a national level, the analysis of self-inspection results 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 provide appropriate guidance to CBP offices and managers. For the current reporting cycle, more than 2,000 managers in approximately 700 CBP Headquarters and field offices performed self-assessment activities researching, certifying, and /or approving the results of office self-inspections. CBP managers completed 12,271 self-inspection worksheets by answering a total of 81,507 questions.

Audit Management and Liaison

The MID Audit Management and Liaison team serves as the agency liaison to the GAO and the DHS OIG providing oversight concerning audits and reviews of CBP programs and operations. The Audit Management and Liaison team facilities meetings between external auditors and CBP personnel, ensures timely responses to auditor requests for documents and interviews, coordinates CBP responses to audit findings and report, tracks the status of required corrective actions, provides agency-wide audit training and keeps senior leadership informed of high-profile audits and reviews.

In FY 2010, CBP had 172 ongoing GAO and OIG audits. Of these audits, GAO initiated 54 new audits (57 audits were carried over from previous years) and issued 46 reports containing 33 recommendations. DHS OIG initiated

23 new audits (38 audits were carried over from previous years) and issued 24 reports containing 26 recommendations. As of the end of FY 2010, CBP has 139 open recommendations.

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. CBP's 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 required 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 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.

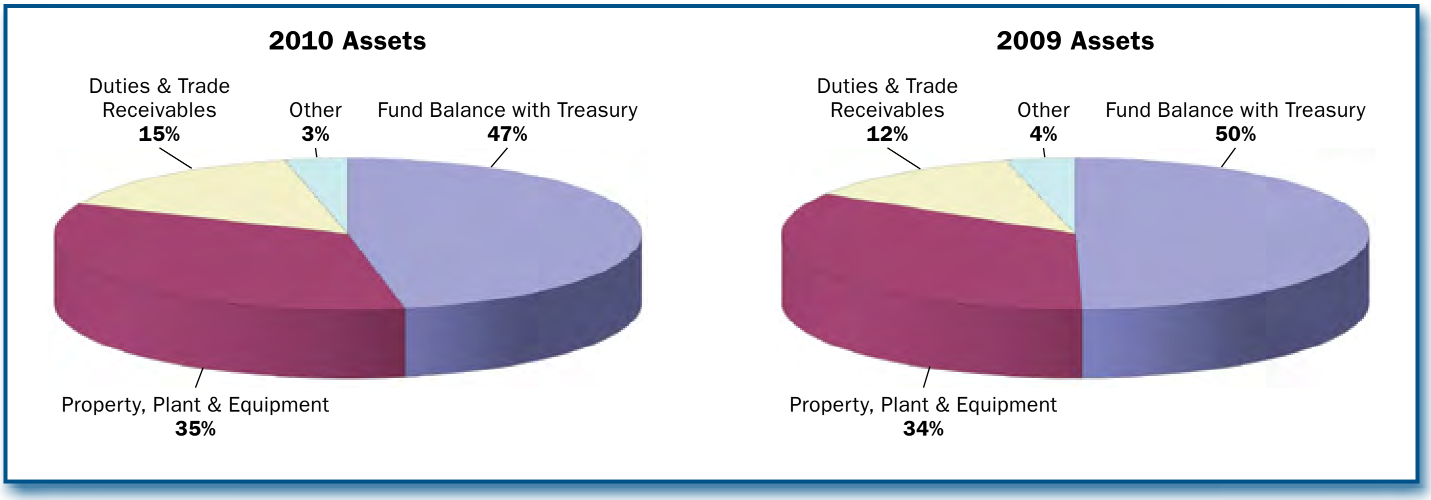
For FY 2010, SAP financial software continues to be used by CBP. SAP is a modular, PC-based, integrated financial management and reporting system that provides full materials management, budgeting, and general and subsidiary ledger capabilities. The impact of SAP is far-reaching, as it has put into place new automated, integrated processes for core finance and accounting, budget execution, and reporting.

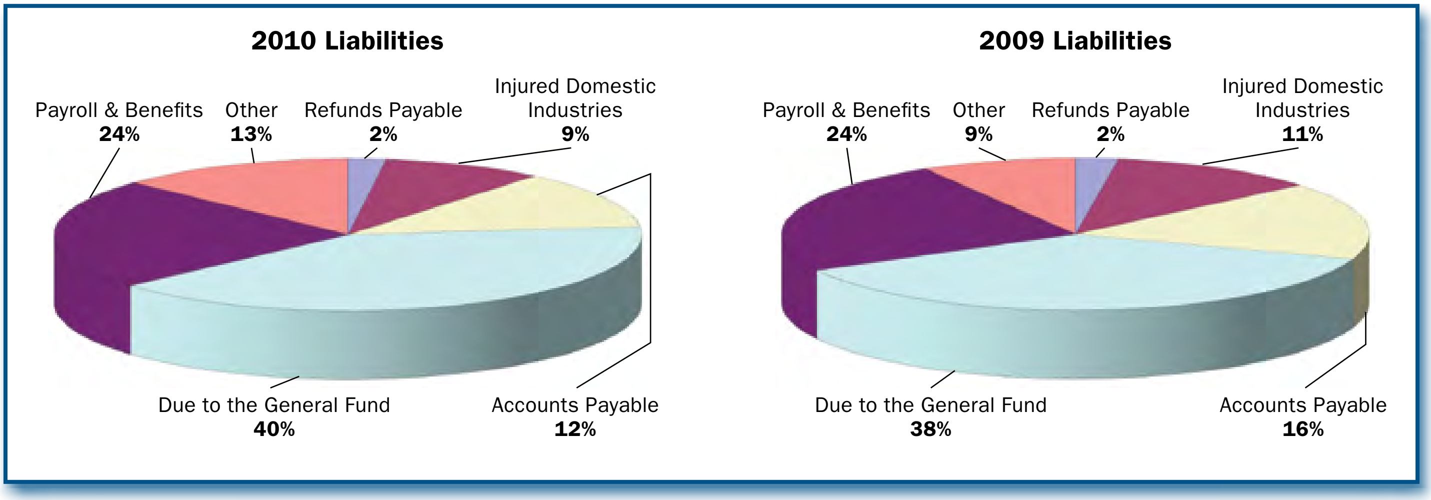
Overview of the Financial Statements

The financial statements and footnotes appear in the "Financial Section" of this report on pages 70 through 116. The financial statements have been audited by the independent auditor engaged by the DHS OIG, KPMG LLP, who determined that the financial statements are fairly presented in accordance with GAAP.

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, 2010, total assets were $16.4 billion, an 8 percent increase from FY 2009. Of the total increase of $1.2 billion in total assets, $584.9 million increase (50%) was in Taxes, Duties, and Trade Receivables; and, $475.8 million increase (41%) was in Property, Plant & Equipment.

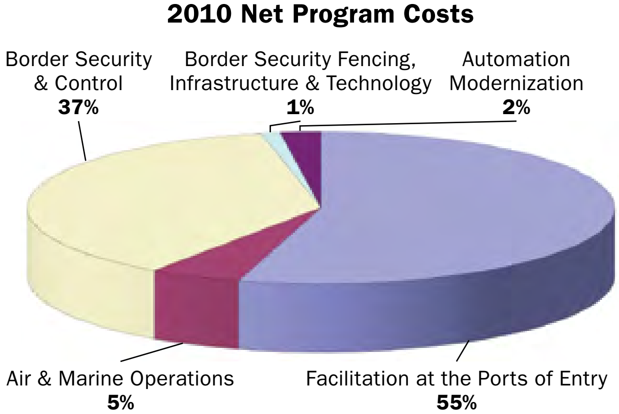


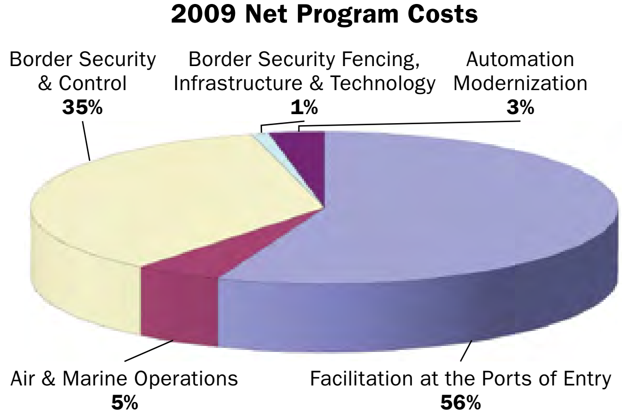


As of September 30, 2010, total liabilities were $6.2 billion, an increase of 16 percent over FY 2009. This increase primarily related to amounts Due to the Treasury General Fund as 60.6 percent of the increase was in Due to the Treasury General Fund; 19.7 percent increase was in Accrued Payroll and Benefits. The assets and liabilities charts present a comparison of the major categories as a percentage of the totals for FY 2010 and FY 2009.

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 2009–2014 Strategic Plan. The gross cost less any offsetting revenue for each program equals net cost of operations. The Net Cost of Operations was $11.8 billion.





Consolidated Statement of Changes in Net Position

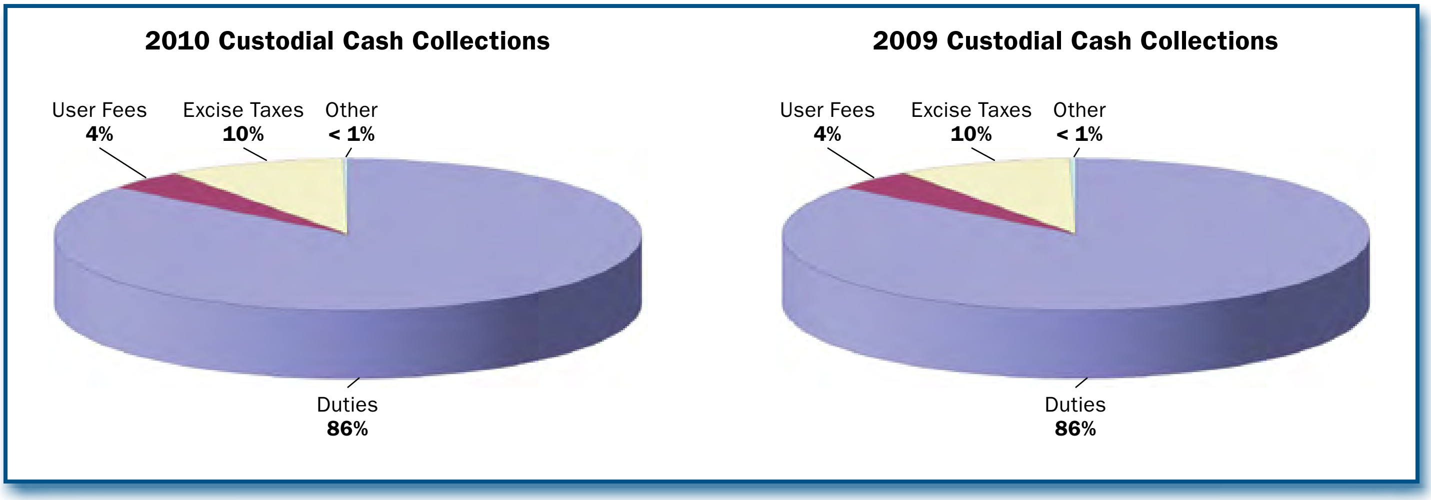
The Consolidated Statement of Changes in Net Position represents those accounting transactions that caused the net position of the balance sheet to change from the beginning to the end of the reporting period. CBP's net cost of operations serves to reduce the net position. Appropriations used totaled $8.5 billion, representing 73 percent of CBP's total financing sources. CBP collected and retained $2.4 billion of non-exchange revenue, amounting to 21 percent of total financing sources, which was used to fund CBP operations.

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 FY 2010. CBP had $17.8 billion in budgetary resources, of which $2.6 billion were unobligated. CBP incurred obligations of $15.1 billion and recorded $14.2 billion in gross outlays by the end of the fiscal year.

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 FY 2010 was $30.1 billion.



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 GAAP 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 for a component of the U.S. Government, a sovereign entity.

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Financial Section

Message from the CFO

CBP is responsible for securing our Nation's borders while facilitating the movement of legitimate travel and trade vital to our economy. 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. To counter the threat of terrorism and secure our borders, CBP relies on a balanced mix of professional law enforcement personnel, advanced technologies and fully modernized facilities and infrastructure.

CBP is the largest uniformed federal law enforcement agency in the country, with more than 20,000 CBP officers and 2,300 agricultural specialists stationed at air, land, and sea ports nationwide; and more than 20,000 Border Patrol agents and 1,200 Air and Marine agents guarding our southern, northern, and maritime borders. Every day, CBP processes over 1 million travelers and thousands of truck, rail and sea containers seeking to enter the United States. We protect more than 5,000 miles along the northern border, 1,900 miles along the southern border, and thousands of miles of shoreline. As a result of these activities, we seize illegal products before they enter the country (such as illegal drugs and counterfeit or dangerous merchandise), arrest criminals, and refuse entry to persons who should not enter the United States. We help mitigate threats to security by preventing terrorists, dangerous cargo, and other threats from boarding aircraft destined for or departing from the United States. On top of all of this, we also collect billions of dollars in revenue each month for the United States Government.

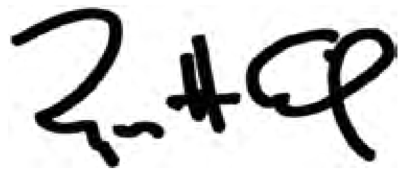
The purpose of this report is to update you on our stewardship of CBP's resources. While our primary missions involve security and trade facilitation, we also continuously strive for excellence in financial management. Especially in light of the current global fiscal environment, we must use wisely the resources provided to us.

CBP has received an unqualified opinion on its full set of financial statements for a fifth consecutive year. The unqualified opinion on our FY 2010 financial statements is another positive reflection that CBP continues to demonstrate discipline and accountability in the execution of our fiscal stewardship responsibilities.

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 are being achieved. CBP is committed to addressing all of our financial management challenges by continuing to implement corrective measures that improve our oversight and accountability.

Message from the CFO

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 the Office of Administration 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 the American public, and to enable the managers across CBP to make smart business decisions.



Eugene H. Schied, Chief Financial Officer
U.S. Customs and Border Protection

Financial Statements

Introduction

The financial statements have been audited by the independent auditor engaged by the DHS OIG, KPMG LLP, who determined that the financial statements are fairly presented in accordance with GAAP.

- The **Consolidated Balance Sheets** present the property owned by CBP (assets), amounts owed by CBP (liabilities), and the amounts of the difference (net position).
- The **Consolidated Statements of Net Cost** present the net cost of the major CBP programs as they relate to the goals of the 2009–2014 Strategic Plan.
- The **Consolidated Statements of Changes in Net Position** represent 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 the net position.
- The **Combined Statements of Budgetary Resources** illustrate how and in what amounts budgetary resources were made available, as well as their status at the end of FY 2010.
- The **Consolidated Statements of Custodial Activity** present non-entity (financial activity conducted by CBP on behalf of others) revenue and refunds using a modified cash basis.

U.S. Customs and Border Protection
Consolidated Balance Sheets
As of September 30, 2010 and 2009
(in Thousands)

	2010	2009
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 7,686,586	$ 7,555,179
Accounts Receivable	14,523	30,134
Advances and Prepayments (Note 11)	235,285	253,799
Total Intragovernmental	7,936,394	7,839,112
Cash and Other Monetary Instruments (Note 4)	3,362	5,192
Accounts Receivable, Net (Note 5)	153,971	180,498
Taxes, Duties and Trade Receivables, Net (Note 6)	2,458,647	1,873,702
Inventory and Related Property, Net (Note 7)	159,021	113,772
General Property, Plant and Equipment, Net (Note 9)	5,681,454	5,205,655
Advances and Prepayments (Note 11)	108	731
TOTAL ASSETS	$ 16,392,957	$ 15,218,662
Stewardship PP&E (Note 10)		
LIABILITIES (Note 12)		
Intragovernmental:		
Accounts Payable	$ 319,445	$ 322,866
Other		
Due to the Treasury General Fund	2,462,178	1,960,419
Accrued FECA Liability (Note 12)	148,988	149,144
Other Employment Liabilities (Note 12)	5,588	872
Employee Benefits and Taxes	95,593	79,479
Advances From Others	22,368	15,354
Total Intragovernmental	3,054,160	2,528,134
Accounts Payable	440,601	556,589
Environmental & Disposal Liabilities (Note 12 and 14)	15,667	13,334
Other		
Accrued Payroll and Benefits (Note 13)	1,462,235	1,299,412
Refunds Payable (Note 15)	129,147	125,743
Injured Domestic Industries (Note 15)	546,916	612,674
Liabilities for Antidumping/Countervailing Duties	132,108	108,391
Software License Agreements (Note 12 and 16)	--	16,894
Legal Contingent Liabilities (Note 17)	380,984	73,002
TOTAL LIABILITIES	$ 6,161,818	$ 5,334,173
Commitments and Contingencies (Note 17)		
NET POSITION:		
Unexpended Appropriations	5,104,867	4,748,349
Cumulative Results of Operations – Earmarked Funds (Note 18)	890,204	992,257
Cumulative Results of Operations – Other Funds	4,236,068	4,143,883
TOTAL NET POSITION	$ 10,231,139	$ 9,884,489
TOTAL LIABILITIES AND NET POSITION	$ 16,392,957	$ 15,218,662

The accompanying notes are an integral part of these financial statements.

U.S. Customs and Border Protection
Consolidated Statements of Net Cost
For the Years Ended September 30, 2010 and 2009
(in Thousands)

	2010	2009
Office of Field Operations Border Security Inspections and Trade Facilitation at Ports of Entry		
Gross Cost	$ 6,571,040	$ 6,173,067
Less: Earned Revenue	166,062	209,174
Net Program Costs	6,404,978	5,963,893
Border Security and Control Between Ports of Entry		
Gross Cost	4,478,145	3,891,284
Less: Earned Revenue	113,171	131,856
Net Program Costs	4,364,974	3,759,428
Border Security Fencing, Infrastructure and Technology		
Gross Cost	128,998	107,631
Less: Earned Revenue	3,260	3,647
Net Program Costs	125,738	103,984
Automation Modernization		
Gross Cost	267,640	335,920
Less: Earned Revenue	6,764	11,383
Net Program Costs	260,876	324,537
Air and Marine Operations		
Gross Cost	610,026	531,201
Less: Earned Revenue	15,417	17,999
Net Program Costs	594,609	513,202
Total Gross Cost	12,055,849	11,039,104
Less: Total Earned Revenue	304,674	374,060
Net Cost of Operations (Note 19 and 20)	$ 11,751,175	$ 10,665,044

The accompanying notes are an integral part of these financial statements.

U.S. Customs and Border Protection
Consolidated Statement of Changes In Net Position
For the Year Ended September 30, 2010
(In Thousands)

	FY 2010		
	Earmarked Funds	**All Other Funds**	**Consolidated Total**
Cumulative Results of Operations:			
Beginning Balances	$ 992,257	$ 4,143,883	$ 5,136,140
Budgetary Financing Sources:			
Appropriations Used	--	8,521,334	8,521,334
Non-exchange Revenue (Note 21)	2,424,085	5,332	2,429,417
Transfers In/Out Without Reimbursement (Note 21)	(1,493,361)	1,692,574	199,213
Other Financing Sources (Non-Exchange):			
Donations and Forfeitures of Property	--	3,366	3,366
Transfers In/Out Without Reimbursement	--	75,242	75,242
Imputed Financing	--	570,393	570,393
Other	--	(57,658)	(57,658)
Total Financing Sources	930,724	10,810,583	11,741,307
Net Cost of Operations	(1,032,777)	(10,718,398)	(11,751,175)
Net Change	(102,053)	92,185	(9,868)
Cumulative Results of Operations	890,204	4,236,068	5,126,272
Unexpended Appropriations:			
Beginning Balance	--	4,748,349	4,748,349
Budgetary Financing Sources:			
Appropriations Received (Note 23)	--	9,046,183	9,046,183
Appropriations Transferred In/Out	--	(9,733)	(9,733)
Other Adjustments	--	(158,598)	(158,598)
Appropriations Used	--	(8,521,334)	(8,521,334)
Total Budgetary Financing Sources	--	356,518	356,518
Total Unexpended Appropriations	--	5,104,867	5,104,867
Net Position	$ 890,204	$ 9,340,935	$ 10,231,139

The accompanying notes are an integral part of these financial statements.

U.S. Customs and Border Protection
Consolidated Statement of Changes In Net Position
For the Year Ended September 30, 2009
(In Thousands)

	FY 2009		
	Earmarked Funds	**All Other Funds**	**Consolidated Total**
Cumulative Results of Operations:			
Beginning Balances	$ 1,057,216	$ 2,523,293	$ 3,580,509
Budgetary Financing Sources:			
Appropriations Used	--	9,198,712	9,198,712
Non-exchange Revenue (Note 21)	2,242,845	5,429	2,248,274
Transfers In/Out Without Reimbursement (Note 21)	(1,360,013)	1,595,308	235,295
Other	--	(47,267)	(47,267)
Other Financing Sources (Non-Exchange):			
Donations and Forfeitures of Property	--	3,917	3,917
Transfers In/Out Without Reimbursement	--	104,146	104,146
Imputed Financing	--	477,598	477,598
Total Financing Sources	882,832	11,337,843	12,220,675
Net Cost of Operations	(947,791)	(9,717,253)	(10,665,044)
Net Change	(64,959)	1,620,590	1,555,631
Cumulative Results of Operations	$ 992,257	$ 4,143,883	$ 5,136,140
Unexpended Appropriations:			
Beginning Balance	--	4,759,210	4,759,210
Budgetary Financing Sources:			
Appropriations Received (Note 23)	--	9,293,210	9,293,210
Appropriations Transferred In/Out	--	(19,128)	(19,128)
Other Adjustments	--	(86,231)	(86,231)
Appropriations Used	--	(9,198,712)	(9,198,712)
Total Budgetary Financing Sources	--	(10,861)	(10,861)
Total Unexpended Appropriations	--	4,748,349	4,748,349
Net Position	$ 992,257	$ 8,892,232	$ 9,884,489

The accompanying notes are an integral part of these financial statements.

U.S. Customs and Border Protection
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2010 and 2009
(in Thousands)

	2010	2009
Budgetary Resources:		
Unobligated Balance, Brought Forward, October 1:	$ 3,065,976	$ 2,549,010
Recoveries of Prior Year Unpaid Obligations	458,013	370,546
Budget Authority		
Appropriation (Note 23)	12,943,996	13,186,312
Spending Authority from Offsetting Collections		
Earned		
Collected	1,586,308	1,597,806
Change in Receivables from Federal Sources	(20,893)	10,788
Change in Unfilled Customer Orders		
Advance Received	1,054	(123)
Without Advance from Federal Sources	(6,794)	(91,511)
Expenditure Transfers from Trust Funds	3,226	3,154
Subtotal	14,506,897	14,706,426
Nonexpenditure Transfers, Net	296,570	320,603
Permanently Not Available	(536,441)	(278,581)
Total Budgetary Resources	$ 17,791,015	$ 17,668,004
Status of Budgetary Resources:		
Obligations Incurred: (Note 22)		
Direct	$ 13,554,026	$ 13,075,506
Reimbursable	1,590,513	1,526,522
Subtotal	15,144,539	14,602,028
Unobligated Balance:		
Apportioned	63,547	64,021
Unobligated Balance Not Available	2,582,929	3,001,955
Total Status of Budgetary Resources	$ 17,791,015	$ 17,668,004
Change in Obligated Balances:		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	$ 4,569,207	$ 5,377,713
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(199,975)	(280,699)
Total Unpaid Obligated Balance, Net	4,369,232	5,097,014
Obligations Incurred, Net	15,144,539	14,602,028
Gross Outlays	(14,194,293)	(15,039,987)
Recoveries of Prior Year Unpaid Obligations, Actual	(458,013)	(370,546)
Change in Uncollected Customer Payments from Federal Sources	27,687	80,723
Obligated Balance, Net, End of Period		
Unpaid Obligations	5,061,440	4,569,207
Uncollected Customer Payments from Federal Sources	(172,288)	(199,975)
Total, Unpaid Obligated Balance, Net, End of Period	4,889,152	4,369,232
Net Outlays:		
Gross Outlays	14,194,293	15,039,987
Offsetting Collections	(1,590,588)	(1,600,837)
Distributed Offsetting Receipts	(2,468,799)	(2,300,029)
Total Net Outlays	$ 10,134,906	$ 11,139,121

The accompanying notes are an integral part of these financial statements.

U.S. Customs and Border Protection
Consolidated Statements of Custodial Activity
For the Years Ended September 30, 2010 and 2009
(in Thousands)

	2010	2009
Revenue Activity (Note 27):		
Sources of Cash Collections:		
Duties	$ 25,283,569	$ 22,633,329
User Fees	1,263,574	1,165,389
Excise Taxes	2,879,796	2,554,916
Fines and Penalties	61,811	61,311
Interest	5,487	17,839
Miscellaneous	14,397	9,739
Total Cash Collections	29,508,634	26,442,523
Accrual Adjustments (+/-)	637,407	(395,310)
Total Custodial Revenue	$ 30,146,041	$ 26,047,213
Disposition of Collections:		
Transferred to Others:		
Treasury General Fund Accounts	$19,714,470	$ 17,345,045
U.S. Department of Agriculture	8,490,353	7,697,785
Other Federal Agencies	27,215	29,629
Government of Puerto Rico	--	1,744
Government of the U.S. Virgin Islands	466	--
Non-federal Other	4,563	--
(Increase)/Decrease in Amounts Yet to be Transferred	629,369	(394,477)
Refunds and Drawbacks (Note 27)	1,279,605	1,367,487
Total Disposition of Custodial Revenue	30,146,041	26,047,213
Net Custodial Activity	$ --	$ --

The accompanying notes are an integral part of these financial 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 United States. In addition to its priority mission, CBP works to protect America and its citizens by carrying out its traditional missions more effectively using innovative approaches. These traditional missions include enforcing United States trade, immigration and other laws at the borders. Trade-related mission activities include protecting American businesses from theft of their intellectual property and unfair trade practices; regulating and facilitating international trade; collecting import duties; enforcing trade laws related to admissibility; regulating trade practices to collect the appropriate revenue; and maintaining export controls. Other traditional missions include controlling the borders by apprehending individuals attempting to enter the United States illegally; stemming the flow of illegal drugs and other contraband; protecting agriculture and economic interests from harmful pests and diseases; processing all people, vehicles and cargo entering the United States; and coordinating with the Department of Defense and others to protect the National Capital Region.

Substantially all of duty, tax, and fee revenues collected by CBP are remitted to various general fund accounts maintained by the U.S. Department of the Treasury (Treasury) and U.S. Department of Agriculture. 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 Government 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 a permanent indefinite appropriation. 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.

During Fiscal Year 2009, CBP received funding under the American Recovery and Reinvestment Act. This funding was available for obligation during FY 2009 and FY 2010. This funding was for the procurement and deployment of non-intrusive inspection systems, tactical communications equipment and radios; expedited development and deployment of border security technology on the Southwest border; and for planning, management, design, alteration and construction of CBP owned land border ports of entry.

Basis of Accounting and Presentation

These financial statements have been prepared from CBP accounting records in conformity with generally accepted accounting principles (GAAP). 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 is responsible for identifying the GAAP hierarchy for federal reporting entities. FASAB has identified the hierarchy to be used in SFFAS 34, *"The Hierarchy of Generally Accepted Accounting Principles, including the Application of Standards Issued by the Financial Accounting Standards Board"*.

The statements consist of the 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. All statements are prepared in accordance with OMB Circular A-136.

These financial statements should be read with the understanding that CBP is a component of a sovereign entity; for which 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, Consolidated Statement of Net Cost and 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.

Earmarked Funds

The Statement of Federal Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*, requires CBP to separate 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
70X5543	International Registered Traveler
70X5595	Electronic Systems for Travel Authorization Fees

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, 2010 and 2009 from which CBP is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law. Non-entity Fund Balance with Treasury represents funds available to pay refunds and drawback claims of duties, taxes, fees, and other non-entity amounts to be distributed to the Treasury General Fund and other Federal accounts in a future period.

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 travel and salary advances and 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, payment record, as well as 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. Each quarterly payment shall include any collection made in the preceding quarter that was not remitted with the previous payment.

Due to the Treasury General Fund

Due to the Treasury General Fund is the offsetting liability to non-entity collections and non-entity receivables.

Taxes Duties and Trade Receivables

Taxes, Duties and Trade Receivables 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 which 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, Taxes Duties and Trade Receivables, Net.

Inventory and Related Property

Inventory and Related Property consist of aircraft, marine, and Secure Border Initiative (SBI) operating materials and supplies to be used in CBP's operations. Aircraft parts and materials are recorded at average unit cost, and marine and SBI 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 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, and 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*, analysis 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 capitalizes property, plant and equipment with an acquisition value of $50 thousand or greater, and a useful life of 2 years or greater.

Expenditures for normal repairs and maintenance are charged to expense as incurred. Expenditures greater than $50 thousand for improving or rebuilding an asset and increases an asset's useful life are 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 to 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.

Accounts Payable

A liability is recorded for an accounts payable accrual from commercial/travel activities. A portion of this liability is estimated. This estimate is based on a ratio using historical subsequent disbursements and undelivered orders and applying the ratio to the undelivered orders as of September 30, 2010 and 2009.

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 expensed when used. 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 7 percent of base pay for regular employees, and 7.5 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 24.9 percent for law enforcement agents. The pay base for determining CBP contributions, to CSRS and FERS for inspectors and canine officers include regular pay and up to a maximum of $17.5 thousand in certain overtime earnings for FY 2010 and 2009. 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 liability under which unemployment compensation is recorded is entitled Other Employment Liabilities; the liability under which unfunded FECA is recorded is entitled Accrued FECA Liability and actuarial FECA is recorded in Accrued Payroll and 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. For additional information see Note 13, Accrued Payroll and Benefits.

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 2010 and 2009 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 field operational cost center 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.

A transfer to the Treasury General Fund is recognized when the non-entity revenue, collected on behalf of the Federal Government, is deposited into various receipt Treasury Symbols designated for the particular type of revenue collected.

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 $3.5 million and $4.2 million for the years ended September 30, 2010 and 2009, respectively. Excess amounts returned to the Treasury General Fund totaled $187 thousand and $275 thousand for the years ended September 30, 2010 and 2009, respectively.

In FY10, the Statement of Custodial Activity was changed to reflect current year interest collections under "Sources of Cash Collections". Uncollected interest due is reported as an Accrual Adjustment.

Use of Estimates

Management has made certain estimates and assumptions in the reporting of assets, liabilities and note disclosures in the Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, 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, allowance for doubtful taxes duties and trade receivables, accruals for construction projects, retirement and post-retirement benefits assumptions, and certain non-entity receivables and payables related to custodial activities.

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.

Reclassification

In FY 2010, CBP made certain reclassifications to FY 2009 balances to conform to FY 2010 presentation.

2. Non-Entity Assets

Non-entity assets as of September 30, 2010 and 2009, consist of the following (in thousands):

	2010	2009
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 815,856	$ 934,204
Public		
Accounts Receivable, Net	425	368
Cash and Other Monetary Instruments (Note 4)	2,734	2,962
Taxes Duties and Trade Receivables, Net (Note 6)	2,458,647	1,873,702
Total Public	2,461,806	1,877,032
Total Non-entity Assets	3,277,662	2,811,236
Total Entity Assets	13,115,295	12,407,426
Total Assets	$ 16,392,957	$ 15,218,662

Non-entity Fund Balance with Treasury as of September 30, 2010 and 2009 includes approximately $129.7 million and $104.6 million (in deposit fund) in duties collected by CBP for unliquidated anti-dumping/countervailing duties and $546.9 million and $696.8 million for Injured Domestic Industries as of September 30, 2010 and 2009, respectively. These assets offset accrued liabilities as of September 30, 2010 and 2009.

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. Taxes Duties and Trade receivables 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 $2.5 billion and $2.0 billion as of September 30, 2010 and 2009.

3. Fund Balance with Treasury

Fund Balance with Treasury as of September 30, 2010 and 2009 consists of the following (in thousands):

2010	Entity	Non-Entity	Total
Trust Funds	$ 5,141	$ --	$ 5,141
Special Funds	798,372	546,916	1,345,288
General Funds	6,064,764	139,200	6,203,964
Deposit Funds	2,453	129,740	132,193
Total	$ 6,870,730	$ 815,856	$ 7,686,586

2009	Entity	Non-Entity	Total
Trust Funds	$ 5,589	$ --	$ 5,589
Special Funds	866,842	696,784	1,563,626
General Funds	5,747,091	132,842	5,879,933
Deposit Funds	1,453	104,578	106,031
Total	$ 6,620,975	$ 934,204	$ 7,555,179

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, 2010 and 2009, CBP User Fees Account includes approximately $714.7 million and $732.4 million, respectively; CBP Services at Small Airports account contained approximately $16.8 million and $14.7 million, respectively; Refunds, Transfers and Expenses of Operation of Puerto Rico account contained approximately $39.3 million and $31.0 million, respectively; and Immigration user fees of $18.4 million and $84.0 million, respectively. Non-entity fund balance includes monies received in connection with antidumping and countervailing duty orders and findings to qualifying Injured Domestic Industries of $546.9 million and $696.8 million as of September 30, 2010 and 2009, respectively.

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.

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.

Status of Fund Balance with Treasury as of September 30, 2010 and 2009 consists of the following (in thousands):

2010	Entity	Non-Entity	Total
Unobligated Balance			
Available	$ 63,384	$ --	$ 63,384
Unavailable	2,036,013	546,916	2,582,929
Obligated Balance not yet Disbursed	4,759,104	130,048	4,889,152
Non-Budgetary FBWT	12,229	138,892	151,121
Total	$ 6,870,730	$ 815,856	$ 7,686,586

2009	Entity	Non-Entity	Total
Unobligated Balance			
Available	$ 63,840	$ --	$ 63,840
Unavailable	2,305,172	696,783	3,001,955
Obligated Balance not yet Disbursed	4,242,775	126,457	4,369,232
Non-Budgetary FBWT	9,188	110,964	120,152
Total	$ 6,620,975	$ 934,204	$ 7,555,179

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 $377.8 million and $192.4 million for indefinite no-year authority and retained $130.1 million and $126.9 million in authority for obligations pursuant to public law during both the years ending September 30, 2010 and 2009.

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, 2010, CBP canceled $58.6 million from FY 2005 annual appropriations. As of September 30, 2009, CBP canceled $86.2 million from FY 2004 annual appropriations.

4. Cash and Other Monetary Instruments

Cash and Other Monetary Instruments as of September 30, 2010 and 2009, consist of the following (in thousands):

2010	Entity	Non-Entity	Total
Imprest Funds	$ 163	$ --	$ 163
Undeposited Collections	465	2,634	3,099
Monetary Instruments	--	100	100
Total	$ 628	$ 2,734	$ 3,362

2009	Entity	Non-Entity	Total
Imprest Funds	$ 181	$ --	$ 181
Undeposited Collections	2,049	2,362	4,411
Monetary Instruments	--	600	600
Total	$ 2,230	$ 2,962	$ 5,192

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.

5. Accounts Receivable, Net

As of September 30, 2010 and 2009 Accounts receivable with the public includes reimbursable service receivables totaling $3.9 million and $8.2 million respectively, and are considered fully collectible; Customs user fee receivables total $93.2 million and $98.8 million, and are net of uncollectible amounts totaling $2.2 million and $2.3 million respectively; Immigration user fee receivables totals $56.9 million and $73.5 million, and are net of uncollectible amounts totaling $15.2 million and $15.1 million respectively.

6. Taxes, Duties and Trade Receivables, Net

Receivables as of September 30, 2010 and 2009 are as follows (in thousands):

Receivable Category	2010 Gross Receivable	2010 Amounts Uncollectible	2010 Total Net Receivables
Duties	$ 2,161,519	$ (139,392)	$ 2,022,127
Excise Taxes	121,282	(5,916)	115,366
User Fees	133,176	4,329	137,505
Fines/Penalties	454,475	(370,706)	83,769
Interest	350,652	(314,848)	35,804
Anti-dumping/Countervailing Duties	551,270	(487,255)	64,015
Refunds and Drawback	586	(525)	61
Total	$ 3,772,960	$ (1,314,313)	$ 2,458,647

Receivable Category	2009 Gross Receivable	2009 Amounts Uncollectible	2009 Total Net Receivables
Duties	$ 1,649,664	$ (146,167)	$ 1,503,497
Excise Taxes	105,481	(5,774)	99,707
User Fees	117,151	(6,971)	110,180
Fines/Penalties	521,194	(471,846)	49,348
Interest	291,084	(251,234)	39,850
Anti-dumping/Countervailing Duties	420,950	(349,904)	71,046
Refunds and Drawback	448	(374)	74
Total	$ 3,105,972	$ (1,232,270)	$ 1,873,702

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. CBP allows periodic monthly payment that requires payment of estimated duties, taxes and fees on the 15th work day of the month following release. A receivable of $2.2 billion and $1.7 billion was recorded for 993,375 entries and 844,316 entries for merchandise released into commerce on or before September 30, 2010 and 2009, respectively. It is CBP's 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. Until this process has been completed, CBP records an allowance on fines and penalties of approximately 81.5 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, vessels, and SBI projects used for enforcement activities. As the result of major construction efforts, CBP procured operating materials and supplies for the SBI. SBI operating materials and supplies include $49.1 million for steel used to repair Border Patrol tactical infrastructure (BP TI) and $19.2 million in spare parts used to repair SBInet. CBP defines operating materials and supplies categorized as "Held for Repair" as items that are useable by CBP after repair. CBP defines operating materials and supplies categorized as "Excess, Obsolete, and Unserviceable" to consist of items that are no longer useable by CBP. For FY 2009 reporting, CBP classified both items that are usable after repair and items that are no longer useable as "Excess, Obsolete, and Unserviceable". CBP does not currently hold operating materials and supplies in reserve for future use. CBP changed the FY 2009 reporting to compare with the more detailed reporting for FY 2010.

Operating Materials and Supplies as of September 30, 2010 and 2009 consist of the following (in thousands):

	2010	2009
Aircraft		
Items Held for Use	$ 71,661	$ 94,166
Items Held for Repair	11,862	6,644
Excess, Obsolete, and Unserviceable Items	983	972
Total Aircraft	84,506	101,782
Vessels		
Items Held for Use	5,819	11,990
Items Held for Repair	248	--
Excess, Obsolete, and Unserviceable Items	176	--
Total Vessels	6,243	11,990
SBI		
Items Held for Use	56,671	--
Items Held for Repair	9,447	--
Excess, Obsolete, and Unserviceable Items	2,154	--
Total SBI	68,272	--
Total	$ 159,021	$ 113,772

8. Seized and Forfeited Property

This schedule is presented for material categories of 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 the 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. Firearms are presented in number of cases. Due to reduction of seizure activity, pornography is no longer presented.

Analysis of Changes in Prohibited (Non-Valued) Seized Property, September 30, 2010

Category	Unit of Measurement	Balance October 1	New Seizures	Remissions	New Forfeitures	Adjustments (1)	Balance September 30
Illegal Drugs							
Cannabis (marijuana)	Kilograms	1,163	1,203,104	0	(1,203,504)	1,094	1,857
Cocaine	Kilograms	174	23,955	0	(23,968)	8	169
Heroin	Kilograms	5	4,674	0	(4,673)	2	8
Ecstasy	Kilograms	34	787	0	(786)	(26)	9
Steroids	Kilograms	97	1,331	(812)	(280)	242	578
Firearms	Number of Cases	1,379	2,259	(1,267)	(763)	(126)	1,482

(1) Adjustments are the result of changes in the quantity from the amount reported in the beginning balance. In addition, a prior year case may change legal status, property type or be discontinued.

Analysis of Changes in Prohibited (Non-Valued) Seized Property, September 30, 2009

Category	Unit of Measurement	Balance October 1	New Seizures	Remissions	New Forfeitures	Adjustments (1)	Balance September 30
Illegal Drugs							
Cannabis (marijuana)	Kilograms	1,037	1,062,594	0	(1,065,252)	2,784	1,163
Cocaine	Kilograms	215	26,012	0	(26,428)	375	174
Heroin	Kilograms	8	1,556	0	(1,558)	(1)	5
Ecstasy	Kilograms	33	1,147	0	(1,146)	0	34
Steroids	Kilograms	145	326	0	(364)	(10)	97
Firearms	Number of Cases	873	1,651	(303)	(784)	(58)	1,379

Analysis of Changes in Prohibited (Non-Valued) Forfeited Property, September 30, 2010

Category	Unit of Measurement	Balance October 1	New Forfeitures	Transfers	Destroyed	Adjustments (1)	Balance September 30
Illegal Drugs							
Cannabis (marijuana)	Kilograms	126,052	1,203,504	(543)	(471,500)	(741,488)	116,025
Cocaine	Kilograms	19,037	23,968	(123)	(66,259)	47,978	24,601
Heroin	Kilograms	2,270	4,673	(36)	(1,118)	296	6,085
Ecstasy	Kilograms	1,417	786	(46)	(1,140)	90	1,107
Steroids	Kilograms	39	280	0	(300)	(2)	17
Firearms	Number of Cases	412	763	(576)	(1)	49	647

(1) Adjustments are the result of changes in the quantity from the amount reported in the beginning balance. In addition, a prior year case may change legal status, property type or be discontinued.

Analysis of Changes in Prohibited (Non-Valued) Forfeited Property, September 30, 2009

Category	Unit of Measurement	Balance October 1	New Forfeitures	Transfers	Destroyed	Adjustments (1)	Balance September 30
Illegal Drugs							
Cannabis (marijuana)	Kilograms	116,600	1,065,252	(1,833)	(525,453)	(528,514)	126,052
Cocaine	Kilograms	35,374	26,428	(212)	(24,057)	(18,496)	19,037
Heroin	Kilograms	7,066	1,558	(48)	(1,374)	(4,932)	2,270
Ecstasy	Kilograms	1,575	1,146	0	(1,145)	(159)	1,417
Steroids	Kilograms	42	364	0	(368)	1	39
Firearms	Number of Cases	408	784	(773)	(7)	0	412

9. General Property, Plant and Equipment, Net

Property, Plant and Equipment as of September 30, 2010 and 2009 consist of the following (in thousands):

	2010			
Categories	**Useful Life (in years)**	**Acquisition Cost**	**Accumulated Depreciation/ Amortization**	**Net Book Value**
Land and Land Rights	N/A	$ 142,144	$ --	$ 142,144
Improvements to Land (a)	6–40	1,762,773	(158,482)	1,604,291
Construction in Progress	N/A	1,387,758	--	1,387,758
Buildings, Other Structures and Facilities (b)	6–40	1,066,864	(189,758)	877,106
Equipment:				
ADP Equipment	5	429,018	(308,308)	120,710
Aircraft	12–20	1,069,353	(611,339)	458,014
Vessels	5–30	37,766	(15,372)	22,394
Vehicles	3–8	427,150	(300,405)	126,745
Other Equipment	5–15	1,097,699	(746,670)	351,029
Assets Under Capital Lease	2–10	--	--	--
Leasehold Improvements	2–30	350,066	(118,209)	231,857
Internal Use Software	5	882,326	(718,314)	164,012
Internal Use Software-in Development	N/A	195,394	--	195,394
Total		$ 8,848,311	$ (3,166,857)	$ 5,681,454

	2009			
Categories	**Useful Life (in years)**	**Acquisition Cost**	**Accumulated Depreciation/ Amortization**	**Net Book Value**
Land and Land Rights	N/A	$ 129,271	$ --	$ 129,271
Improvements to Land	6–40	1,219,088	(73,446)	1,145,642
Construction in Progress	N/A	1,438,094	--	1,438,094
Buildings, Other Structures and Facilities (b)	6–40	952,375	(158,300)	794,075
Equipment:				
ADP Equipment	5	396,135	(253,796)	142,339
Aircraft	12–20	1,005,541	(568,922)	436,619
Vessels	5–30	32,217	(14,400)	17,817
Vehicles	3–8	410,141	(290,310)	119,831
Other Equipment	5–15	1,003,938	(627,115)	376,823
Assets Under Capital Lease	2–10	9,485	(9,485)	--
Leasehold Improvements	2–30	306,620	(85,054)	221,566
Internal Use Software	5	822,768	(624,137)	198,631
Internal Use Software-in Development	N/A	184,947	--	184,947
Total		$ 7,910,620	$ (2,704,965)	$ 5,205,655

(a) Increase from FY 2009 relates to the completion of fence segments on the U.S. southern border.
(b) Includes four multi-use heritage assets located in Puerto Rico with an acquisition value of $534 thousand.

10. Stewardship PP&E

CBP's Stewardship PP&E is comprised of heritage assets located in the United States, including the Commonwealth of Puerto Rico. CBP aggregates its personal property heritage assets as collection of documents and artifacts and reflects its multi-use heritage assets as number of physical units. Information related to heritage assets at September 30, 2010 and 2009 consists of the following:

	2010				
Categories	**Beginning Balance**	**Additions**	**Withdrawals**	**Adjustments**	**Total**
Collection-type Assets					
Documents	1	--	--	--	1
Artifacts	1	--	--	--	1
Multi-use Heritage Assets	4	--	--	--	4
Total Stewardship PP&E	6	--	--	--	6

	2009				
Categories	**Beginning Balance**	**Additions**	**Withdrawals**	**Adjustments**	**Total**
Collection-type Assets*					
Documents	--	--	--	1	1
Artifacts	--	--	--	1	1
Multi-use Heritage Assets	4	--	--	--	4
Total Stewardship PP&E	4	--	--	2	6

* CBP did not report collection-type assets prior to FY 2009.

CBP possesses a wide range of documents and artifacts which are unique due to historical, cultural, artistic, or architectural significance. These assets are used to preserve and to provide education on CBP's history and tradition. Documents consist of dated tariff classifications, CBP regulations, ledgers of Collectors of Customs, and Custom pamphlets. Artifacts include antique scales, dated pictures of Customs Inspectors, aged tools used to sample imported commodities such as wood bales and bulk grain, and dated Customs uniforms, badges, and stamps.

As of September 30, 2010 and 2009, CBP maintains four customs houses, designated as multi-use heritage assets, located in Puerto Rico valued at $534 thousand which are fully depreciated. All multi-use heritage assets are reflected on the Consolidated Balance Sheet. Deferred maintenance and condition information for heritage assets are presented in the required supplementary information.

11. Advances and Prepayments

Intragovernmental advances and prepayments as of September 30, 2010 and 2009, totaling $235.3 million and $253.8 million respectively, consist primarily of advances to UNICOR for vehicle purchases.

Advances and prepayments with the public as of September 30, 2010 and 2009, totaling $0.1 million and $0.7 million 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, 2010 and 2009, consist of the following (in thousands):

	2010	2009
Intragovernmental:		
Accrued FECA Liability	$ 148,988	$ 149,144
Other Employment Liabilities	5,588	872
Due to the Treasury General Fund	2,461,903	1,960,419
Total Intragovernmental	2,616,479	2,110,435
Public:		
Accrued Payroll and Benefits:		
Accrued Unfunded Leave (Note 13)	390,221	329,376
Actuarial FECA Liability (Note 13)	773,051	715,033
Environmental and Disposal Liabilities (Note 14)	15,667	13,334
Legal Contingent Liabilities	380,984	73,002
Software License Agreements (Note 16)	--	16,894
Total Public	1,559,923	1,147,639
Total Liabilities Not Covered by Budgetary Resources	4,176,402	3,258,074
Total Liabilities Covered by Budgetary Resources	1,985,416	2,076,099
Total Liabilities	$ 6,161,818	$ 5,334,173

In FY 2010, the presentation of this note was changed. The FY 2010 Due to the Treasury General Fund liability is reported as a liability not covered by budgetary resources. For comparability with FY 2010, the FY 2009 balance reported as Due to the Treasury General Fund liability was reclassified as not covered by Budgetary Resources. In FY 2009, this liablility was presented as Total Liabilities Covered by Budgetary Resources or Non-Entity Assets. While these liabilities are covered by Non-Entity Assets, they are not covered by budgetary resources. Liabilities not covered by new budget authority or other budgetary resources represent amounts owed in excess of available appropriated or other amounts. Available budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority through downward adjustments of prior year obligations.

13. Accrued Payroll and Benefits

The payroll and benefits liability as of September 30, 2010 and 2009 consists of the following (in thousands):

	2010	2009
Accrued Funded Payroll and Benefits	$ 298,963	$ 255,003
Accrued Unfunded Leave	390,221	329,376
Actuarial FECA Liability	773,051	715,033
Total	$ 1,462,235	$ 1,299,412

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 are generated from an application of actuarial procedures developed by the DOL.

14. Environmental & Disposal Liabilities

CBP is required to remediate contamination in accordance with Federal laws in order to protect human health and the environment. These laws include the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act, the Oil Pollution Act, the Clean Water Act, the Toxic Substances Control Act, and the Clean Air Act.

Estimated environmental liabilities include expected future cleanup costs and those associated with site characterization, sampling, risk assessment, removal of contamination sources, treatment, containment, and monitoring. These costs are recognized and disclosed in accordance with SFFAS No. 5; SFFAS No.6; Technical Releases No. 2, 10, and 11, and DHS policy directives and memorandum. CBP records the estimated cost of environmental liabilities that are probable and measurable to the current operating period. For those probable sites where future liability is unknown or no reasonable estimate of the cost to clean up a particular site could be made, the cost of studies necessary to evaluate response or remediation requirements is reported.

CBP's environmental cleanup liability as of September 30, 2010 and 2009 was $15.7 million and $13.3 million, respectively. There were no material changes in total estimated cleanup costs due to changes in law or technology. Notable changes in estimated liabilities include:

- Estimates of liability are presented in FY 2010 dollars and have been appropriately escalated to account for inflation.
- Inventory of liabilities modified due to Due Care Review process.
- The estimate for environmental remediation increased in FY 2010 due to a change in long term monitoring requirements.

15. Other Liabilities

CBP considers $81.3 million and $85.5 million of the accrued FECA Liability, $773.1 and $715.0 million of the actuarial FECA Liability, and $354.3 and $59.1 million of the Legal Contingent Liabilities as non-current as of September 30, 2010 and 2009 respectively. CBP considers all remaining Other Liabilities as current.

Other Public Liabilities includes 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 payable to be recorded. Using this average, CBP has estimated $31.4 million and $39.1 million as of September 30, 2010 and 2009, respectively, as a payable.

The September 30, 2010 and 2009, accrued liability consists of the following (in thousands):

	2010	2009
Refunds	$ 91,904	$ 77,491
Drawback Claims	37,243	48,252
Total	$ 129,147	$ 125,743

Injured Domestic Industries

The ***Continued Dumping and Subsidy Offset Act (CDSOA) of 2000 (P.L. 106-387, Title X)***, enacted in FY 2001, calls for CBP to collect and disburse monies received in connection with antidumping and countervailing duty orders and findings to qualifying Injured Domestic Industries (IDI). Antidumping duties are collected when it is determined that a class or kind of foreign merchandise is being released into the U.S. economy at less than its fair value to the detriment of a U.S. industry. Countervailing duties are collected when it is determined that a foreign government is providing a subsidy to its local industries to manufacture, produce, or export a class or kind of merchandise for import into the U.S. commerce to the detriment of a U.S. industry. Due to the repeal of the CDSOA in the Deficit Reduction Omnibus Reconciliation Act of 2005, only duties collected prior to October 1, 2007 will eventually be distributed to affected U.S. companies pursuant to rulings by the U.S. Department of Commerce. As of September 30, 2010 and 2009, CBP recorded a liability of $546.9 million and $612.7 million, respectively, related to future payments of antidumping/countervailing duties to injured domestic industries.

16. Leases

Capital Leases

As of September 30, 2010 (in thousands):

Summary of Assets Under Capital Lease:	2010 Acquisition Cost	2010 Accumulated Depreciation	2010 Net Book Value
Software*	$ 116,462	$ (116,462)	$ --
Total	$ 116,462	$ (116,462)	$ --

As of September 30, 2009 (in thousands):

Summary of Assets Under Capital Lease:	2009 Acquisition Cost	2009 Accumulated Depreciation	2009 Net Book Value
Software	$ 152,241	$ (127,748)	$ 24,493
Total	$ 152,241	$ (127,748)	$ 24,493

* CBP has a software license fee agreement for a mainframe software license. As of September 30, 2010, there is no associated liability remaining.

For FY 2009 reporting, CBP disclosed Assets Acquired Under Capital Lease. For FY 2010, CBP has disclosed Assets Under Capital Lease for both FY 2010 and FY 2009.

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, 2010 (in thousands):

Fiscal Year	Facilities, Vehicles, and Equipment
2011	$ 998
2012	922
2013	897
2014	843
2015	709
Beyond 2015	1,434
Total Future Lease Payments	$ 5,803

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, 2010 and 2009 were $381.0 million to $544.9 million and $73.0 million to $188.9 million, respectively. Asserted and pending legal claims for which loss is reasonably possible range from an estimated $351.7 million to $413.4 million and $374.3 million to $502.5 million as of September 30, 2010 and 2009, respectively. As of September 30, 2010, CBP had 8 cases considered reasonably possible for which no estimate could be made.

As disclosed in the Other Liabilities note, $354.3 million and $59.1 million of the Legal Contingent Liabilities is considered non-current as of September 30, 2010 and 2009 respectively.

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, 2010 and 2009 have been recorded.

Loaned Aircraft

CBP is liable to the Department of Defense for damage or loss to aircraft on loan. CBP had 17 and 16 aircraft loaned from Department of Defense with an acquisition value of $100.3 million and $94.4 million, as of September 30, 2010 and 2009 respectively.

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 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.

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 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. In 2002, in Public Law 107-77, Congress increased the immigration user fee 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.

In FY 2003 with the formation of the DHS, CBP collects and shares the revenue from the immigration user fees with Immigration and Customs Enforcement (ICE). CBP maintains approximately 83% of the user fee, while the other 17% is turned over to ICE.

The following tables present condensed data relating to CBP earmarked funds (disclosed in note 1) as of and for the years ended September 30, 2010 and 2009 (in thousands):

	2010			
Balance Sheet	**COBRA**	**IUF**	**All Others**	**Total**
Assets				
Fund Balance with Treasury	$ 714,680	$ 18,373	$ 25,997	$ 759,050
Taxes Duties & Trade Receivables, Net	81,083	--	658	81,741
Other Assets	93,469	57,061	126	150,656
Total Assets	$ 889,232	$ 75,434	$ 26,781	$ 991,447
Liabilities and Net Position				
Liabilities	$ 99,658	$ --	$ 1,585	$ 101,243
Cumulative Results of Operations	789,574	75,434	25,196	890,204
Total Liabilities and Net Position	$ 889,232	$ 75,434	$ 26,781	$ 991,447
Statement of Net Cost				
Gross Cost	$ 398,763	$ 592,087	$ 39,910	$ 1,030,760
Less: Earned Revenue	--	--	(2,017)	(2,017)
Net Cost of Operations	$ 398,763	$ 592,087	$ 41,927	$ 1,032,777
Statement of Change in Net Position				
Net Position Beginning of Period	$ 811,500	$ 159,267	$ 21,490	$ 992,257
Net Costs of Operations	(398,763)	(592,087)	(41,927)	(1,032,777)
Non-Exchange Revenue	1,759,882	618,570	45,633	2,424,085
Net Transfers In/Out	(1,383,045)	(110,316)	--	(1,493,361)
Change in Net Position	(21,926)	(83,833)	3,706	(102,053)
Net Position End of Period	$ 789,574	$ 75,434	$ 25,196	$ 890,204

	2009			
Balance Sheet	**COBRA**	**IUF**	**All Others**	**Total**
Assets				
Fund Balance with Treasury	$ 732,406	$ 84,035	$ 19,372	$ 835,813
Taxes Duties & Trade Receivables, Net	65,290	--	24	65,314
Other Assets	99,085	75,232	3,961	178,278
Total Assets	$ 896,781	$ 159,267	$ 23,357	$ 1,079,405
Liabilities and Net Position				
Liabilities	$ 85,280	$ --	$ 1,868	$ 87,148
Cumulative Results of Operations	811,501	159,267	21,489	992,257
Total Liabilities and Net Position	$ 896,781	$ 159,267	$ 23,357	$ 1,079,405
Statement of Net Cost				
Gross Cost	$ 398,997	$ 519,022	$ 34,667	$ 952,686
Less: Earned Revenues	(57)	--	4,952	4,895
Net Cost of Operations	$ 399,054	$ 519,022	$ 29,715	$ 947,791
Statement of Change in Net Position				
Net Position Beginning of Period	$ 847,236	$ 196,863	$ 13,117	$ 1,057,216
Net Costs of Operations	(399,054)	(519,022)	(29,715)	(947,791)
Non-Exchange Revenue	1,618,895	585,862	38,088	2,242,845
Net Transfers In/Out	(1,255,577)	(104,436)	--	(1,360,013)
Change in Net Position	(35,736)	(37,596)	8,373	(64,959)
Net Position End of Period	$ 811,500	$ 159,267	$ 21,490	$ 992,257

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 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 years ended September 30, 2010 and 2009 (in thousands):

	2010	2009
Border Security Inspections and Trade Facilitation at Ports of Entry		
Intragovernmental Costs	$ 1,922,623	$ 1,813,756
Public Costs	4,648,417	4,359,311
Total Border Security Inspections and Trade Facilitation at Ports of Entry Costs	**6,571,040**	**6,173,067**
Less: Intragovernmental Earned Revenue	104,890	141,322
Less: Public Earned Revenue	61,172	67,852
Total Border Security Inspections and Trade Facilitation at Ports of Entry Revenue	**166,062**	**209,174**
Border Security and Control Between Ports of Entry		
Intragovernmental Costs	1,310,262	1,143,328
Public Costs	3,167,883	2,747,956
Total Border Security and Control Between Ports of Entry Costs	**4,478,145**	**3,891,284**
Less: Intragovernmental Earned Revenue	71,483	89,084
Less: Public Earned Revenue	41,688	42,772
Total Border Security and Control Between Ports of Entry Revenue	**113,171**	**131,856**
Border Security Fencing, Infrastructure and Technology		
Intragovernmental Costs	37,744	31,624
Public Costs	91,254	76,007
Total Border Security Fencing, Infrastructure and Technology Costs	**128,998**	**107,631**
Less: Intragovernmental Earned Revenue	2,059	2,464
Less: Public Earned Revenue	1,201	1,183
Total Border Security Fencing, Infrastructure and Technology Revenue	**3,260**	**3,647**
Automation Modernization		
Intragovernmental Costs	78,309	98,699
Public Costs	189,331	237,221
Total Automation Modernization Costs	**267,640**	**335,920**
Less: Intragovernmental Earned Revenue	4,272	7,690
Less: Public Earned Revenue	2,492	3,693
Total Automation Modernization Revenue	**6,764**	**11,383**
Air and Marine Operations		
Intragovernmental Costs	178,488	156,076
Public Costs	431,538	375,125
Total Air and Marine Operations Costs	**610,026**	**531,201**
Less: Intragovernmental Earned Revenue	9,738	12,161
Less: Public Earned Revenue	5,679	5,838
Total Air and Marine Operations Revenue	**15,417**	**17,999**
Net Cost of Operations	**$ 11,751,175**	**$ 10,665,044**

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 United States. CBP meets these responsibilities by: (1) enforcing the laws governing the flow of merchandise or commerce across the borders of the United States; (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 United States on behalf of federal agencies and/or in conjunction with various states, local agencies, and foreign countries.

Operating costs are summarized in the Consolidated Statement of Net Cost by mission or major line of activity, 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.

For the year ended September 30, 2010 (in thousands):

Schedule of Net Cost by Program and Responsibility Segment	2010				
	Protect our Nation from Dangerous People	Protect our Nation from Dangerous Goods	Protect Critical Infrastructure	Intra-Entity Eliminations	Consolidated Total
Border Security Inspections and Trade Facilitation at Ports of Entry					
Gross Costs:					
Passenger Processing	$ 1,749,823	$ 1,993,914	$ --	$ 375,574	$ 3,368,163
Trade Compliance	257	2,561,720	--	257,019	2,304,958
Anti-Terrorism	131,734	696,262	--	83,065	744,931
Outbound	--	170,048	--	17,060	152,988
Total Gross Costs	1,881,814	5,421,944	--	732,718	6,571,040
Less: Earned Revenue	231,616	667,164	--	732,718	166,062
Net Program Costs	$ 1,650,198	$ 4,754,780	$ --	$ --	$ 6,404,978
Border Security and Control Between Ports of Entry					
Gross Costs	$ 4,977,490	$ --	$ --	$ 499,345	$ 4,478,145
Less: Earned Revenue	612,516	--	--	499,345	113,171
Net Program Costs	$ 4,364,974	$ --	$ --	$ --	$ 4,364,974
Border Security Fencing, Infrastructure and Technology					
Gross Costs	$ 143,382	$ --	$ --	$ 14,384	$ 128,998
Less: Earned Revenue	17,644	--	--	14,384	3,260
Net Program Costs	$ 125,738	$ --	$ --	$ --	$ 125,738
Automation Modernization					
Gross Costs	$ 19,128	$ 271,543	$ 6,812	$ 29,843	$ 267,640
Less: Earned Revenue	2,354	33,415	838	29,843	6,764
Net Program Costs	$ 16,774	$ 238,128	$ 5,974	$ --	$ 260,876
Air and Marine Operations					
Gross Costs	$ 678,048	$ --	$ --	$ 68,022	$ 610,026
Less: Earned Revenue	83,439	--	--	68,022	15,417
Net Program Costs	594,609	--	--	--	594,609
Net Cost of Operations	$ 6,752,293	$ 4,992,908	$ 5,974	$ --	$ 11,751,175

For the year ended September 30, 2009 (in thousands):

Schedule of Net Cost by Program and Responsibility Segment	2009 Protect our Nation from Dangerous People	Protect our Nation from Dangerous Goods	Protect Critical Infrastructure	Intra-Entity Eliminations	Consolidated Total
Border Security Inspections and Trade Facilitation at Ports of Entry					
Gross Costs:					
Passenger Processing	$ 1,624,706	$ 1,915,053	$ --	$ 377,056	$ 3,162,703
Trade Compliance	--	2,506,867	--	267,032	2,239,835
Anti-Terrorism	117,374	620,230	--	78,570	659,034
Outbound	--	124,787	--	13,292	111,495
Total Gross Costs	1,742,080	5,166,937	--	735,950	6,173,067
Less: Earned Revenue	238,309	706,815	--	735,950	209,174
Net Program Costs	$ 1,503,771	$ 4,460,122	$ --	$ --	$ 5,963,893
Border Security and Control Between Ports of Entry					
Gross Costs	$ 4,355,201	$ --	$ --	$ 463,917	$ 3,891,284
Less: Earned Revenue	595,773	--	--	463,917	131,856
Net Program Costs	$ 3,759,428	$ --	$ --	$ --	$ 3,759,428
Border Security Fencing, Infrastructure and Technology					
Gross Costs	$ 120,463	$ --	$ --	$ 12,832	$ 107,631
Less: Earned Revenue	16,479	--	--	12,832	3,647
Net Program Costs	$ 103,984	$ --	$ --	$ --	$ 103,984
Automation Modernization					
Gross Costs	$ 2,471	$ 366,949	$ 6,548	$ 40,048	$ 335,920
Less: Earned Revenue	338	50,197	896	40,048	11,383
Net Program Costs	$ 2,133	$ 316,752	$ 5,652	$ --	$ 324,537
Air and Marine Operations					
Gross Costs	$ 594,531	$ --	$ --	$ 63,330	$ 531,201
Less: Earned Revenue	81,329	--	--	63,330	17,999
Net Program Costs	$ 513,202	$ --	$ --	$ --	$ 513,202
Net Cost of Operations	$ 5,882,518	$ 4,776,874	$ 5,652		$ 10,665,044

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, activities, projects, objectives or any combination thereof (in thousands).

2010	Apportionment Category A	Apportionment Category B	Exempt from Apportionment	Total
Obligations Incurred - Direct	$ 8,070,018	$ 4,508,410	$ 975,598	$ 13,554,026
Obligations Incurred - Reimbursable	1,460,425	130,088	--	1,590,513
Total Obligations Incurred	$ 9,530,443	$ 4,638,498	$ 975,598	$ 15,144,539

2009	Apportionment Category A	Apportionment Category B	Exempt from Apportionment	Total
Obligations Incurred - Direct	$ 7,665,023	$ 4,189,531	$ 1,220,952	$ 13,075,506
Obligations Incurred - Reimbursable	1,408,850	117,672	--	1,526,522
Total Obligations Incurred	$ 9,073,873	$ 4,307,203	$ 1,220,952	$ 14,602,028

23. Appropriations

As of September 30, 2010 and 2009, the Combined Statements of Budgetary Resources consist of appropriations totaling $12.9 billion and $13.2 billion, respectively. This differs from the Consolidated Statements of Changes in Net Position as of September 30, 2010 and 2009, which consist of appropriations received totaling $9 billion and $9.3 billion, respectively. This difference is due to CBP's non-entity activity, which as of September 30, 2010 and 2009 consists of $1.5 billion and $1.6 billion, respectively, for Refund and Drawback activity as well as $2.4 billion and $2.3 billion, respectively, for user/inspection fees and subsidy activity, which are not reported on the Consolidated Statements 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 an appropriation, 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 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 Statements of Net Cost. Likewise, the refunds of overpayments are not available for use by CBP in its operations. Refunds and drawback disbursements totaled $1.3 billion and $1.4 billion for fiscal year ended September 30, 2010 and 2009, and are presented as a use of custodial revenue on the Consolidated Statements of Custodial Activity. 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 $923.6 million at September 30, 2010, 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. The passenger fees in the COBRA User Fee Account, totaling approximately $743.3 million, as of September 30, 2010 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 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.

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 2009 Combined Statement of Budgetary Resources and the actual amounts reported for FY 2009 in the Budget of the U.S. Government. Since the FY 2010 financial statements are reported prior to the Budget of the U.S. Government, CBP is reporting for FY 2009 only. Typically, the Budget of the U.S. Government with the FY 2010 actual data is published in February of the subsequent year. Once published, the FY 2010 actual data will be available at OMB website, www.whitehouse.gov/omb.

Differences between the SBR and the Budget of the U.S. Government (in thousands):

2009	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 17,668,004	$ 14,602,028	$ 2,300,029	$ 11,139,121
Differences:				
Expired Appropriation not Included in President's Budget	(262,281)	(48,958)	--	--
Refunds & Drawbacks not Included in President's Budget	(1,217,043)	(1,217,043)	--	(1,091,900)
Injured Domestic Industries not Included in President's Budget (20X5688)	(922,459)	(225,676)	--	(225,676)
Offsetting Receipts not Included in the Treasury Annual Report	--	--	10,834	2,300,029
Miscellaneous	(1,000)	3,000	--	1,000
Total Differences	(2,402,783)	(1,488,677)	10,834	983,453
Budget of the US Government	$ 15,265,221	$ 13,113,351	$ 2,310,863	$ 12,122,574

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 been prepaid. Undelivered orders for the period ended September 30, 2010 and 2009 (in thousands):

	2010	2009
Unpaid	$ 4,180,681	$ 3,537,361
Upward/Downward Adjustment of Prior Period	(424,410)	(335,308)
Total Undelivered Orders at the End of Period	$ 3,756,271	$ 3,202,053

27. Custodial Revenues

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, 2010 and 2009 (in thousands):

	2010	2009
Refunds	$ 562,749	$ 658,989
Drawback	716,856	708,498
Total	$ 1,279,605	$ 1,367,487

Amounts refunded during FY 2010 and 2009 identified by entry year consist of the following (in thousands):

Entry Year	2010
2010	$ 767,090
2009	153,707
2008	74,424
2007	55,375
Prior Years	229,009
Total	$ 1,279,605

Entry Year	2009
2009	$ 754,711
2008	176,069
2007	70,855
2006	41,892
Prior Years	323,960
Total	$ 1,367,487

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, 2010 and 2009, consisted of the following (in thousands):

	2010	2009
Antidumping and Countervailing Duty Refunds	$ 39,923	$ 29,313
Interest	2,906	747
Total	$ 42,829	$ 30,060

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, 2010 and 2009 (in thousands):

	2010	2009
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 15,144,539	$ 14,602,028
Less: Spending Authority from Offsetting Collections and Recoveries	2,020,914	1,890,660
Obligations Net of Offsetting Collections and Recoveries	13,123,625	12,711,368
Less: Offsetting Receipts	2,468,799	2,300,029
Net Obligations	10,654,826	10,411,339
Other Resources		
Donations and Forfeiture of Property	3,366	3,917
Transfers In/Out Without Reimbursement	75,242	104,146
Imputed Financing from Costs Absorbed by Others	570,393	477,598
Other	(57,658)	--
Net Other Resources Used to Finance Activities	591,343	585,661
Total Resources Used to Finance Activities	$ 11,246,169	$ 10,997,000
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered, but not yet Provided	$ 538,419	$ (607,718)
Resources that Fund Expenses Recognized in Prior Periods	17,050	9,139
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations	(2,468,798)	(2,269,464)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	1,126,092	2,229,214
Tax Revenue Refunds and Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	1,252,923	1,478,856
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ 465,686	$ 840,027
Total Resources Used to Finance the Net Cost of Operations	$ 10,780,483	$ 10,156,973
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability and Environmental Liability	$ 63,178	$ 34,561
Change in Actuarial FECA Liability, Legal Contingent Liabilities and Other	370,715	44,492
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	$ 433,893	$ 79,053
Components not Requiring or Generating Resources		
Depreciation and Amortization	$ 547,299	$ 454,479
Revaluation of Assets or Liabilities	(10,924)	5,111
Other	424	(30,572)
Total Components of Net Cost of Operations that will Not Require or Generate Resources	$ 536,799	$ 429,018
Total Components of Net Cost of Operations that will Not Require or Generate Resources in the Current Period	$ 970,692	$ 508,071
Net Cost of Operations	$ 11,751,175	$ 10,665,044

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):

	2010	
	Condition Assessment	**Deferred Maintenance**
Building and Structures	Poor to Good	$ 98,527
Vehicles	Good	68
Equipment	Good	32
Multi-Use Heritage Assets	Good	--
Collections (documents and artifacts)	Poor to Good	--
Total		$ 98,627

	2009	
	Condition Assessment	**Deferred Maintenance**
Building and Structures	Poor to Good	$ 96,048
Vehicles	Good	30
Multi-Use Heritage Assets	Poor to Good	2,080
Collections (documents and artifacts)	Poor to Good	--
Total		$ 98,158

Statement of Budgetary Resources (SBR)

The total Budgetary Resources of $17.8 billion for FY 2010 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.

In FY 2009 CBP identified budgetary resources by three fund types. Effective with FY 2010, CBP identified budgetary resources by six different budget accounts: Salaries & Expense, Air & Marine, Border Security Fencing, Infrastructure & Technology (BSFIT), Construction, Automation, and Other. The FY 2009 Schedule for Budgetary Resources by Major Fund Type comparison does not reflect the FY 2010 budget accounts.

Schedule of Budgetary Resources by Major Budget Accounts:

As of September 30, 2010 (in thousands):	Salaries & Expense	Air & Marine	BSFIT	Construction	Automation	Other	Total
Budgetary Resources							
Unobligated Balances Brought Forward, Oct 1	$ 465,948	$ 141,609	$ 407,491	$ 454,657	$ 84,806	$ 1,511,465	$ 3,065,976
Recoveries of Prior Year Obligations	194,813	42,410	28,471	171,057	16,036	5,226	458,013
Budget Authority:							
Appropriations	6,932,342	551,826	814,000	325,570	422,445	3,897,813	12,943,996
Spending Authority from Offsetting Collections:							
Earned	--	--	--	--	--	--	--
Collected	1,546,724	9,868	--	--	--	29,716	1,586,308
Change in Receivable from Federal Sources	(17,059)	(58)	--	--	--	(3,776)	(20,893)
Change in Unfilled Customer Orders:							
Advance Received	1,054	--	--	--	--	--	1,054
Without Advance from Federal Sources	(10,291)	160	--	--	--	3,337	(6,794)
Expenditure Transfers from Trust Funds	3,226	--	--	--	--	--	3,226
Subtotal	8,455,996	561,796	814,000	325,570	422,445	3,927,090	14,506,897
Non-Expenditure Transfers, Net	1,684,947	--	--	--	--	(1,388,377)	296,570
Permanently Not Available	(58,597)	--	(100,000)	--	--	(377,844)	(536,441)
Total Budgetary Resources	$ 10,743,107	$ 745,815	$ 1,149,962	$ 951,284	$ 523,287	$ 3,677,560	$ 17,791,015
Status of Budgetary Resources							
Obligations Incurred:							
Direct	$ 8,642,522	$ 600,373	$ 825,303	$ 725,377	$ 415,174	$ 2,345,277	$ 13,554,026
Reimbursable	1,551,242	9,977	--	--	--	29,294	1,590,513
Total Obligations Incurred	10,193,764	610,350	825,303	725,377	415,174	2,374,571	15,144,539
Unobligated Balance:							
Apportioned	16,679	29	13,457	33,382	--	--	63,547
Unobligated Balance Not Available	532,664	135,435	311,202	192,526	108,113	1,302,989	2,582,929
Total Status of Budgetary Resources	$ 10,743,107	$ 745,814	$ 1,149,962	$ 951,285	$ 523,287	$ 3,677,560	$ 17,791,015
Change in Obligated Balances							
Obligated Balance, Net							
Unpaid Obligations Brought Forward, Oct 1	$ 1,954,209	$ 743,013	$ 504,440	$ 937,408	$ 241,647	$ 188,490	$ 4,569,207
Uncollected Customer Payments from Federal Sources Brought Forward, Oct 1	(195,275)	(417)	--	--	--	(4,283)	(199,975)
Total Unpaid Obligated Balance, Net	1,758,934	742,596	504,440	937,408	241,647	184,207	4,369,232
Obligations Incurred, Net	10,193,764	610,350	825,303	725,377	415,174	2,374,571	15,144,539
Gross Outlays	(9,912,573)	(656,740)	(561,794)	(260,423)	(426,260)	(2,376,503)	(14,194,293)
Recoveries of Prior Year Unpaid Obligations	(194,813)	(42,410)	(28,471)	(171,057)	(16,036)	(5,226)	(458,013)
Change in Uncollected Customer Payments from Federal Sources	27,350	(102)	--	--	--	439	27,687
Obligated Balance, Net, End of Period							
Unpaid Obligations	2,040,588	654,212	739,478	1,231,305	214,525	181,332	5,061,440
Less: Uncollected Customer Payments from Federal Sources	167,926	518	--	--	--	3,844	172,288
Total, Unpaid Obligated Balance, Net, End of Period	1,872,662	653,694	739,478	1,231,305	214,525	177,488	4,889,152
Net Outlays							
Gross Outlays	9,912,573	656,740	561,794	260,423	426,260	2,376,503	14,194,293
Offsetting Collections	(1,551,004)	(9,868)	--	--	--	(29,716)	(1,590,588)
Distributed Offsetting Receipts	--	--	--	--	--	(2,468,799)	(2,468,799)
Total Net Outlays	$ 8,361,569	$ 646,872	$ 561,794	$ 260,423	$ 426,260	$ (122,012)	$ 10,134,906

Schedule of Budgetary Resources by Major Fund Type:

As of September 30, 2009 (in thousands):	Appropriated Funds	Trust Funds	Other Funds	Total
Budgetary Resources				
Unobligated Balances Brought Forward, October 1	$ 978,500	$ 3,802	$ 1,566,708	$ 2,549,010
Recoveries of Prior Year Obligations	347,846	1,215	21,485	370,546
Budget Authority:				
Appropriations	9,293,211	3,917	3,889,184	13,186,312
Spending Authority from Offsetting Collections:				
Earned				
Collected	1,569,793	--	28,013	1,597,806
Change in Receivable from Federal Sources	6,527	--	4,261	10,788
Change in Unfilled Customer Orders:				
Advance Received	(123)	--	--	(123)
Without Advance from Federal Sources	(91,514)	--	3	(91,511)
Expenditure Transfers from Trust Funds	3,154	--	--	3,154
Subtotal	10,781,048	3,917	3,921,461	14,706,426
Non-Expenditure Transfers, Net	1,578,358	3,154	(1,260,909)	320,603
Permanently Not Available	(86,230)	--	(192,351)	(278,581)
Total Budgetary Resources	$ 13,599,522	$ 12,088	$ 4,056,394	$ 17,668,004
Status of Budgetary Resources				
Obligations Incurred:				
Direct	$ 10,546,314	$ 7,022	$ 2,522,170	$ 13,075,506
Reimbursable	1,498,697	--	27,825	1,526,522
Total Obligations Incurred	12,045,011	7,022	2,549,995	14,602,028
Unobligated Balance:				
Apportioned	64,021	--	--	64,021
Unobligated Balance Not Available	1,490,490	5,066	1,506,399	3,001,955
Total Status of Budgetary Resources	$ 13,599,522	$ 12,088	$ 4,056,394	$ 17,668,004
Change in Obligated Balances				
Obligated Balance, Net				
Unpaid Obligations Brought Forward, October 1	$ 5,285,429	$ 1,185	$ 91,099	$ 5,377,713
Uncollected Customer Payments from Federal Sources Brought Forward, October 1	(280,680)	--	(19)	(280,699)
Total Unpaid Obligated Balance, Net	5,004,749	1,185	91,080	5,097,014
Obligations Incurred, Net	12,045,011	7,022	2,549,995	14,602,028
Gross Outlays	(12,601,875)	(6,469)	(2,431,643)	(15,039,987)
Recoveries of Prior Year Unpaid Obligations	(347,847)	(1,215)	(21,484)	(370,546)
Change In Uncollected Customer Payments from Federal Sources	84,987	--	(4,264)	80,723
Obligated Balance, Net, End of Period				
Unpaid Obligations	4,380,717	523	187,967	4,569,207
Less: Uncollected Customer Payments from Federal Sources	195,692	--	4,283	199,975
Total, Unpaid Obligated Balance, Net, End of Period	4,185,025	523	183,684	4,369,232
Net Outlays				
Gross Outlays	12,601,875	6,469	2,431,643	15,039,987
Offsetting Collections	(1,572,824)	--	(28,013)	(1,600,837)
Distributed Offsetting Receipts	--	--	(2,300,029)	(2,300,029)
Total Net Outlays	$ 11,029,051	$ 6,469	$ 103,601	$ 11,139,121

Custodial Activity

Substantially all duty, tax and fee revenues collected by CBP are remitted to various General Fund accounts maintained by Treasury and U.S Department of Agriculture. 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 determines that 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. During the 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 2010 and 2009 CBP had the legal right to collect \$2.5 billion and \$1.9 billion of receivables. In addition, there were \$2.4 billion and \$2.2 billion representing records still in the protest phase for FY 2010 and 2009 respectively. CBP recognized as write-offs \$42.8 million and \$397.4 million of assessments that the Department has statutory authority to collect at September 30, 2010 and 2009, but has no future collection potential. Most of this amount represents fines, penalties and interest.

Auditor's Report

Independent Auditor's Report

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

Office of Inspector General

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

Homeland Security

March 25, 2011

MEMORANDUM FOR: The Honorable Alan Bersin
Commissioner
U.S. Customs and Border Protection

FROM: Charles K. Edwards
Acting Inspector General

SUBJECT: *Independent Auditors' Report on U.S. Customs and Border Protection's FY 2010 Financial Statements*

Attached for your information is our final report, *Independent Auditors' Report on U.S. Customs and Border Protection's FY 2010 Financial Statements*. We incorporated the formal comments from the Chief Financial Officer in the report.

Consistent with our responsibility under the *Inspector General Act*, as amended, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. Also, we will post the report on our website for public dissemination. To promote transparency, your response to our final report, including your corrective actions planned, will be posted to our website, with exception of sensitive information identified by your office.

Should you have any questions, please call me, or your staff may contact Ms. Anne L. Richards, Assistant Inspector General for Audits, at (202) 254-4100.

Attachment

Department of Homeland Security
Office of Inspector General

Independent Auditors' Report on U.S. Customs and Border Protection's FY 2010 Financial Statements

OIG-11-61

March 2011

Office of Inspector General

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

Homeland Security

MAR 25 2011

Preface

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

The attached report presents the results of the U.S. Customs and Border Protection's (CBP) financial statement audits for fiscal year (FY) 2010 and FY 2009. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audits. The contract required that KPMG perform its audits according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG concluded that CBP's consolidated financial statements as of and for the years ended September 30, 2010 and 2009, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. The FY 2010 auditors' report discusses one material weakness, and five other significant deficiencies in internal control. KPMG is responsible for the attached independent auditors' report, and the conclusions expressed in the report. We do not express opinions on CBP's financial statements or provide conclusions on compliance with laws and regulations.

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

for

Anne L. Richards
Assistant Inspector General for Audits

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

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. Customs and Border Protection (CBP), a Component of the U.S. Department of Homeland Security (the Department), as of September 30, 2010 and 2009, 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 2010 audit, we also considered CBP's internal control over financial reporting and tested CBP's compliance with certain provisions of applicable laws, regulations, and contracts 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, 2010 and 2009, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in identifying six significant deficiencies of which one we consider to be a material weakness. The significant deficiencies, as defined in the Internal Control Over Financial Reporting section of this report, are as follows:

Material Weakness:
A. Drawback of Duties, Taxes, and Fees

Significant Deficiencies:
B. Financial Reporting
C. Property, Plant, and Equipment
D. Inactive Obligations
E. Entry Process
   1. In-Bond Program
   2. Trade Compliance Measurement
   3. Bonded Warehouse and Foreign Trade Zones
F. Information Technology

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The following sections discuss our opinion on CBP's consolidated financial statements; our consideration of CBP's internal control over financial reporting; our tests of CBP's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the U.S. Customs and Border Protection (CBP), a component of the U.S. Department of Homeland Security (the Department) as of September 30, 2010 and 2009, 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, 2010 and 2009, 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.

The information in the Management's Discussion and Analysis and Required Supplementary Information (RSI) sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. 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. As a result of such limited procedures, we believe that the RSI Statement of Budgetary Resources is not in conformity with accounting guidance because the RSI presents the fiscal year 2009 Statement of Budgetary Resources by major fund type instead of by major budget account.

The information in the Commissioner's Message, Message from the Chief Financial Officer, Other Accompanying Information, Office of Inspector General (OIG) Report on Major Management Challenges, and Acronyms, as reflected in the Annual Financial Report Fiscal Year 2010's accompanying table of contents 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, in our fiscal year 2010 audit, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in Exhibit I to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit II to be significant deficiencies.

Exhibit III presents the status of prior year significant deficiencies and material weaknesses.

We noted certain additional matters that we will report to management of CBP in a separate letter.

Compliance and Other Matters

The results of our tests of compliance as described in the Responsibilities section of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

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Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to CBP.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2010 and 2009 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 2010 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, but not for the purpose of expressing 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. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether CBP's fiscal year 2010 consolidated financial statements are free of material misstatement, we performed tests of CBP's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct 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. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to CBP. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

CBP's response to the findings identified in our audit are presented in Management's Response to the Independent Auditor's Report. 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 CBP's management, DHS' management, the DHS' Office of 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

January 25, 2011

EXHIBIT I

Material Weaknesses

A. Drawback of Duties, Taxes and Fees

Background:

CBP performs an important revenue collection function for the U.S. Treasury. CBP collected approximately $29.5 billion in import duties, taxes and fees in fiscal year 2010 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.

Condition:

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

- CBP is unable to prevent, or detect and correct excessive drawback claims against an entry summary due to the inherent limitations of the Automated Commercial System (ACS) and the lack of controls therein. An entry summary can be composed of numerous line items. ACS does not have the capability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries (UCEs), their individual line items, or export documentation upon which the drawback claim was based. Currently, the Drawback module within ACS does not provide information at the line item level to ensure drawback claims are not over claimed and thus are not overpaid at the individual line item level. By law, the amount paid for drawback claims against a given import entry should not exceed 99% of the duties, taxes, and fees collected at the individual line item level.

- ACS only provides information to ensure that the total amount of all drawback claims against a given import entry summary does not exceed 100% of the total amount of duties, taxes, and fees collected, at the entry summary level. In addition, export information is not linked to the Drawback module and, therefore, electronic comparisons of export data cannot be performed within ACS to ensure that overpayments of drawback claims are not made.

- Drawback review policies did not require drawback specialists to review all or a statistically valid sample of prior drawback claims against a selected import entry to determine whether, in the aggregate, an excessive amount had been claimed against import entries. We also noted that CBP utilizes a "validity tree" approach when selecting prior related drawback claims for review. The validity tree approach requires CBP to review the largest prior related drawback claims; however, the approach is not statistical. In addition, drawback review policy and procedures allow drawback specialists, with supervisory approval, to judgmentally decrease the number of UCEs randomly selected for review, which decreases the review's effectiveness. Further, CBP's sampling methodology for selecting UCEs is not considered to be statistically valid and CBP's Drawback Operations Guide does not include procedures for statistically projecting errors noted in the sample.

- The statutory period for document retention related to a drawback claim is only three years from the date of payment. However, there are several situations that could extend the life of the drawback claim well beyond three years.

Cause/Effect:

Due to system functionality limitations, much of the drawback process is manual, placing an added burden on limited resources. CBP uses a sampling approach to compare, verify, and match consumption entry and export documentation to drawback claims submitted by importers. However, system and procedural limitations decrease the effectiveness of this approach. The inherent risk of fraudulent claims or claims made in error is high, which increases the risk of erroneous payments. In addition, the length of the drawback claim lifecycle is often indeterminate, while the document retention period is set by statute at only three years.

Criteria:

Under the *Federal Managers Financial Integrity Act of 1982* (FMFIA), management must implement cost-effective controls to safeguard assets and ensure reliable financial reporting. OMB's *Revised Implementation Guidance for the Federal Financial Management Improvement Act* states that financial systems should "routinely provide reliable financial information uniformly across the Federal government following professionally-accepted accounting standards" to support management of current operations. The Federal Systems Integration Office (FSIO) publications and OMB Circular No. A-127, *Financial Management Systems,* outline the requirements for Federal systems. FSIO'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 No. 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.

Title 19 of the Code of Federal Regulations (CFR), Section 191.51(b)(1) states, "The amount of drawback requested on the drawback entry is generally to be 99 percent of the import duties eligible for drawback. Claims exceeding 99 percent (or 100% when 100% of the duty is available for drawback) will not be paid until the calculations have been corrected by the claimant."

OMB Circular No. A-123, *Management's Responsibility for Internal Control,* states, "Management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations."

Recommendations:

We recommend that CBP:

1. Implement effective internal controls over drawback claims as part of any new system 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. Develop and implement automated controls to prevent overpayment of a drawback claim; and

3. Pilot statistically valid drawback claim review programs at each Drawback Center. Analyze the results of the pilots and determine the benefit of full implementation of the programs.

CBP Response:

See management's response included in the attached letter.

EXHIBIT II

Other Significant Deficiencies

B. Financial Reporting

Background:

CBP's investment in accounting and financial reporting infrastructure did not keep pace with its significant growth in prior years, creating an environment where financial statement errors are more likely to occur. In Fiscal Year (FY) 2010, CBP management recognized that its operations continue to experience rapid and large scale growth and took action to bring the resources allocated to its financial management in line with this growth. However, our audit determined that some financial reporting deficiencies continued to exist, which impair CBP's ability to produce timely, reliable financial information throughout the fiscal year.

Condition:

We noted that CBP:

- Did not timely resolve or have proper oversight of financial management issues, particularly when the information resides with and/or is controlled and maintained by a contractor, to ensure that policies are followed and transactions are recorded accurately and timely in the general ledger. The lack of oversight contributed to the following conditions:

    - Operating materials and supplies (OM&S) transactions were not recorded in a timely manner. CBP's contractors were unable to record transactions in the Computerized Aircraft Reporting and Material Control (CARMAC) system during the fiscal year. Thus, an inventory backlog existed which was not identified until late in the fiscal year. Therefore, OM&S amounts recorded in CBP's general ledger throughout the fiscal year were incomplete.

    - Inaccurate reporting of the percentage of completion (POC) of construction projects in the first half of FY 2010. CBP lacked documented processes for detailed reviews of provided POCs to determine if the POC was accurate. CBP did not detect inaccurate POCs prior to providing guidance to project managers in the third quarter of FY 2010.

    - Resolution of accounting issues related to SBInet valuation were not finalized until the final weeks of the fiscal year. Ultimately, a $9.4 million write-off was identified, but was not timely recorded.

- Did not have sufficient internal controls in place related to journal entries. Specifically, CBP:

    - Did not have proper segregation of duties in place over certain manual journal entries recorded in its general ledger. In a sample of 200 manual journal entries, we noted 114 instances in which the same individual was responsible for multiple key aspects of a transaction, including authorizing, processing, recording, and reviewing.

    - Recorded intra-departmental eliminating journal entries without sufficient supporting documentation. In a sample of 860 operating expense transactions of all types throughout FY 2010, we noted 19 instances of intra-departmental journal entry transactions where CBP identified differences between its account balances and the balances of its trading partners; however, CBP did not obtain support for the trading partner's balance. CBP only obtained a copy of the trading partner's trial balance with the corresponding elimination pair. In those cases, CBP did not work with the trading partner to reconcile the differences noted between the two agencies and instead, recorded the unsupported trading partner amount.

- Did not have sufficient controls in place to review automated journal entries. CBP does not perform a review of these entries either at the time the posting logic is established and then periodically to identify necessary updates, or at the time each automated journal entry is recorded.

- Used an incorrect population when performing its search for unrecorded accounts payable, which is used to support its accounts payable estimate. This resulted in CBP identifying certain payments as unrecorded accounts payable when these payments had already been recorded; thus, overstating its estimate of accounts payable. In addition, when performing its search, CBP allocated invoices to either the prior or current fiscal year in their entirety, rather than considering whether the period of performance indicated that it should be allocated across fiscal years.

Criteria:

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, defines internal control and provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control. In particular, it states, "Management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations."

The Government Accountability Office (GAO)'s *Standards for Internal Control in the Federal Government* states, "Operating information is required for development of financial reports. This covers a broad range of data from purchases, subsidies, and other transactions to data on fixed assets, inventories, and receivables… Effective communications should occur in a broad sense with information flowing down, across, and up the organization." In addition, it states, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

Cause/Effect:

CBP does not have an effective process in place to timely review and analyze contractor information that could potentially impact the financial statements. As a result, CBP is unable to address changes in its operations that could potentially result in errors or omissions in the financial statements, or misapplication of generally accepted accounting principles (GAAP) may go undetected throughout the year.

CBP does not have proper segregation of duties or sufficient review over manual journal entries and therefore could record inaccurate or unsubstantiated journal entries in the general ledger. CBP does not have Standard Operating Procedures (SOP) for the creation, implementation, and periodic review of automated posting logic, which may allow the implementation of inaccurate posting logic and may misstate the effected accounts each time the automated posting occurs.

CBP does not have sufficient controls or documented policies and procedures in place to detect errors in its population used to search for unrecorded accounts payable, which led to double counting of $43 million of accounts payable. CBP's process did not provide for expenses to be allocated over multiple fiscal years and therefore incorrectly allocated these types of expenses to one fiscal year in their entirety.

Recommendations:

We recommend that CBP:

1. Executive senior management emphasize the importance of the financial statements to all program offices to ensure they provide the information necessary to identify and address risks and issues related to CBP's operations which could possibly lead to misstatements on CBP's financial statements;

2. Program offices conduct an assessment relating to their financial reporting requirements to ensure they have the proper resources and processes in place to timely and accurately provide the information necessary to accurately report CBP's financial statements;

3. Conduct an assessment of manual journal entries and enhance internal controls surrounding the process;

4. Work with DHS components and the DHS Office of Financial Management to obtain detailed information supporting intra-departmental transactions;

5. Formalize and improve its approval process for creating or changing automated journal entry postings in SAP, CBP's financial reporting system; and

6. Adopt revised standard operating procedures to address additional steps necessary to prevent duplicate entries in the population used to formulate estimated accounts payable and include an allocation of expenses across fiscal years where applicable.

C. Property, Plant, and Equipment (PP&E)

Background:

CBP has acquired substantial new technology, facilities, and other assets in recent years through purchase and construction. CBP's increased assets include construction of border fencing (both physical and virtual), purchase of inspection equipment at ports of entry, and new construction at port of entry facilities.

Condition:

We noted that CBP:

- Did not have a fully implemented, documented, formal process in place to obtain accurate Percentage of Completion (POC) amounts from project/construction managers. Specifically, we noted a lack of proper, timely guidance provided to project managers on how to calculate a POC. Once CBP issued guidance in the third quarter of FY 2010, the POC amounts reported varied, including both increases and decreases from those reported earlier in the FY. In addition, CBP only issued POC criteria guidance for those projects that relate to new construction and thus POC amounts that relate to alterations or renovations of a port remain at the discretion of a project manager. At two renovation sites we visited, the POC amounts reported were not consistent with the project schedules outlined and observed at the time of our site visits and these errors were not detected by CBP's review process.

- Did not have a formal review process to determine if the project managers reported a correct POC amount and did not require project managers to provide documentation supporting the reported POC throughout the year. Additionally, CBP did not obtain sufficient support when recording amounts other than the POC reported by the project managers. For example, in one quarter, CBP obtained the amount its contractor would be recording as a receivable and recorded this amount as a payable and accrued CIP. However, CBP did not obtain sufficient detail to determine if these amounts were accurate and subsequently determined that the POC amounts reported by project managers were more accurate.

- Did not properly and timely record Construction in Progress (CIP) settlement transactions. Specifically, we noted 76 instances in which assets were untimely moved from CIP to fixed assets, resulting in the misclassification of assets in the general ledger. These delays spanned from one to twelve months. As a result of these late settlements, depreciation for the assets was understated from the time the assets were placed in service and when the assets were settled. To correct depreciation in the general ledger, CBP recorded an additional $35.7 million in accumulated depreciation and depreciation expense. In addition, we noted 40 assets in which CBP understated their value at the time the assets were placed in service. CBP did not recognize the full value of the asset until further invoices were received. We noted that six of these assets were moved from CIP in the current year and 34 were moved in the prior year, but continued to increase in value in the current year.

- Did not properly perform and/or document physical annual inventories related to real and personal property and did not detect assets incorrectly recorded, misclassified, or not recorded in the general ledger.

- Recorded certain asset additions for an amount other than the amount paid, or using the incorrect general ledger account.

- Recorded certain asset retirements for assets still in use, without proper approval, one to thirty-five months after removing the asset from service, or using the incorrect general ledger account.

Criteria:

Statements of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment* states:

- "PP&E consists of tangible assets, including land, that meet the following criteria: they have estimated useful lives of 2 years or more; they are not intended for sale in the ordinary course of operations; and they have been acquired or constructed with the intention of being used, or being available for use by the entity;
- "PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E."

- "All general PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use."
- "In the period of disposal, retirement, or removal from service, general PP&E shall be removed from the asset accounts along with associated accumulated depreciation/amortization. Any difference between the book value of the PP&E and amounts realized shall be recognized as a gain or a loss in the period that the general PP&E is disposed of, retired, or removed from service. General PP&E shall be removed from the general PP&E accounts along with the associated accumulated depreciation/amortization, if prior to disposal, retirement or removal from service, it no longer provides service in the operations of the entity."

OMB Circular No. A-123, *Management's Responsibility for Internal Control,* states that "Management is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency's ability to meet its objectives, would be prevented or detected in a timely manner."

Cause/Effect:

CBP did not have documented and/or fully implemented policies and procedures and does not have sufficient oversight of its policies and procedures, to ensure that all PP&E transactions are recorded timely and accurately. As a result, CBP's CIP, PP&E, depreciation expense, and accumulated depreciation may be misstated at any point during the fiscal year by the recording of transactions, which are incorrect, unsupported, or untimely.

Recommendations:

We recommend that CBP:

1. Ensure standard procedures are in place and used by all Facilities Management and Engineering (FM&E) Program Management Offices (PMO) to determine POCs for all capitalized projects;

2. Implement formal, documented FM&E PMO level review controls to determine if the POCs reported are accurate and consistent with established accounting criteria prior to their recording in the financial statements;

3. Establish and implement a standardized process that is integrated with its financial system of record in order to facilitate the timely recording of assets placed into service;

4. Implement policies and procedures to monitor project estimated completion dates and notify project managers of pending dates to record completed assets or provide revised completion dates;

5. Refine and reinforce or implement new guidance for the performance and documentation of PP&E inventories;

6. Emphasize the need to record asset additions and disposals in accordance with established policy; and

7. Consider adding supervision and monitoring controls to ensure that all intended corrective actions are effective and functioning properly.

D. Inactive Obligations

Background:

CBP issued Directive 1220-011C, *Reviews of Unliquidated Obligations and Open Goods/Service Receiving Records,* during fiscal year 2009, which requires all obligation and open goods receipt and service entry sheet records to be reconciled to supporting documentation at the close of each quarter. Additionally, it requires a semi-annual review of specific populations of obligations to identify the status for each record.

Condition:

CBP is not enforcing its policies and procedures to monitor and deobligate or close-out its obligations in a timely manner. During our testwork over CBP's Undelivered Orders (UDO) balance as of September 30, 2010, we selected a statistical sample of 367 UDOs and noted eleven UDOs were no longer valid and had not been deobligated. CBP did not reconcile these UDOs to supporting documentation (e.g., documents within the contract action file) and reasonably assure that only valid obligations remained open. In addition, six of the sampled UDOs had been identified as no longer valid by CBP, but were not deobligated at the individual obligation level. Although CBP has made progress in deobligating invalid obligations, CBP was unable to process all deobligations at the detail level prior to September 30, 2010, and therefore, recorded an on-top adjustment for inactive obligations in the amount of $83 million.

Furthermore, CBP is not properly enforcing its policies and procedures for timely receipt of certification letters and deobligation of expired contracts. We noted when completing its review of UDOs as of December 31, 2009, CBP marked 11,895 of 18,019 UDOs as not reviewed, which was inconsistent with its certifications that all UDOs had been reviewed as of that date.

Criteria:

U.S. Code Title 31 Section 1501(a)(1) states, "An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of a binding agreement between an agency and another person (including an agency) that is in writing, in a way and form, and for a purpose authorized by law; and executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided." Section 1554(c) states, "The head of each agency shall establish internal controls to assure that an adequate review of obligated balances is performed…"

CBP Directive 1220-011C states that "All obligation and open goods receipt and service entry sheet records must be reconciled to supporting documentation at the close of each quarter of the fiscal year, i.e., December 31, March 31, June 30, and September 30. Additionally, a semi-annual review of specific population of obligations must be performed and the status for each record identified. This is done to reasonably assure that only valid obligations remain open and open goods receipt and service entry sheet records are accurate."

Cause/Effect:

CBP did not properly enforce its policies and procedures to monitor all open obligations on a periodic basis to determine if amounts require deobligation. As a result, undelivered orders and related account balances may be overstated at any point during the fiscal year.

Recommendations:

We recommend that CBP:

1. Re-emphasize and reinforce compliance with Directive No. 1220-011C and implement proper monitoring controls to identify all invalid obligations and subsequently deobligate those obligations timely;

2. Continue to resolve its backlog of obligations marked for deobligation and implement procedures to monitor obligations identified as no longer valid to ensure there is a necessary reason for them to remain obligated; and

3. Improve the oversight of the preparation of the detailed report listing open obligations to be reviewed by program offices in order to (a) refine the open obligations requiring detailed program office review, (b) improve Office of Administration oversight of program office review, and (c) work towards review of all open obligations.

E. Entry Process

1. In-Bond Program

Background:

General In-Bond Process
An in-bond entry allows the movement of cargo through the United States without payment of duty and taxes prior to entry into domestic or foreign commerce. The cargo may enter commerce after it arrives at the destination port and an entry is filed. 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 the payment of duty. The shipment also might not enter commerce if the shipment is entered into a bonded warehouse or admitted into a foreign trade zone.

Compliance Audit and In-Bond
In 1998, CBP implemented an audit system within ACS to serve as a compliance measurement system. This audit system, known as Tin-Man, utilizes random examinations and post audit reviews to ensure bonded carrier compliance with bond obligations. Tin-Man is used to select ports to perform physical examinations at the time of arrival and departure and to perform post audit reviews of carrier activity. Once each week, ports throughout the U.S. should be assigned post audits and physical examinations to perform based on a GAO-approved algorithm.

In-Bond Shipments Overdue for Export (M02) Report
In-bond shipments overdue for export are included on the M02 report. Items on this report are in-bond movements transmitted by importers or brokers via the Automated Manifest System (AMS), Automated Broker Interface (ABI), or paper that have not exported within the required time limit. Review of the M02 report is designed to identify cargo that has not been exported and therefore may have physically, but not formally entered into U.S. commerce, thus circumventing the assessment and payment of duties and fees.

Monthly List of In-Bond Shipments Overdue (M07) Report
In-Bond shipments overdue are included on the M07 report. Data on paperless and conventional in-bond movements transmitted by AMS participants, as well as in-bond information input via the "INBE" function in ACS appears in this report. Review of the M07 report is designed to identify cargo that has not arrived at the original destination port of entry communicated to CBP.

Condition:

We noted the following weaknesses exist over the in-bond program:

- Ports are required to submit a summary of post audits conducted and the associated results to Headquarters. However, due to a system limitation in ACS, Headquarters cannot run an oversight report to determine if ports have completed all required audits. The SINS report in ACS is designed to provide this function, but it currently does not accurately list the history of all in-bonds selected for audit and is not consistent with the listing of incomplete Tin-Man audits on the INES report.
- The M02 report does not track air in-bonds. CBP is currently creating a report to track air in-bonds, but it was not implemented in FY 2010.
- Requirements for ports to retain documentation produced in the course of resolution of items on the M02 report and the M07 report were issued in April 2010, and therefore were not in operation for all of FY 2010. In addition, there is no requirement for ports to completely resolve all items on the M02 and M07 reports each time they are run. Therefore, certain items on the report may not be resolved.
- Tin-Man is designed to designate both examinations of cargo and post audits on a weekly basis. CBP must manually reset Tin-Man at the beginning of each fiscal year in order to select the examinations and post audits for the upcoming year. However, CBP failed to manually reset the cargo examination portion of Tin-Man, which resulted in no cargo examinations designated for the ports by the Tin-Man system for FY 2010.
- CBP does not perform a formal analysis to determine the overall compliance rate of the in-bond program. CBP does not analyze the rate and types of violations found to determine the effectiveness of the in-bond program, nor does it identify a projected total amount of uncollected duties and fees on in-bond merchandise that has physically entered U.S. commerce without formal entry to ensure there is not a potentially significant loss of revenue.

Criteria:

According to Title 19 Section 18.2(d) of the CFR, the carrier's "Failure to surrender the in-bond manifest or report the arrival of bonded merchandise within the prescribed period shall constitute an irregular delivery and the initial bonded carrier shall be subject to applicable penalties (see Section 18.8)." 19 CFR Section 18.6 (b) states, "When there is a shortage of one or more packages, or nondelivery of an entire shipment, or delivery to unauthorized locations, or delivery to the consignee without the permission of Customs, the port director may demand return of the merchandise to Customs custody. The demand shall be made no later than 30 days after the shortage, delivery, or nondelivery is discovered by Customs." 19 CFR Section

18.8(b) designates the penalties to be "liquidated damages under the carrier's bond for any shortage, failure to deliver, or irregular delivery, as provided in such bond."

OMB Circular No. A-123, *Management's Responsibility for Internal Control,* states that "management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations."

Cause/Effect:

A Headquarters memorandum to all field offices was issued in April 2010 indicating the retention guidelines for in-bond audits, in-bond examinations, the M02 report, and the M07 report. However, not all ports were in compliance with the memorandum. Additionally, there is no requirement for ports to completely resolve all items on the M02 and M07 reports each time they are run. The inability to effectively and fully monitor the in-bond process and verify the arrival of in-bond merchandise at the port level could lead to a lack of identification of additional revenue due to uncollected duties and fees on in-bond merchandise that has physically entered U.S. commerce without formal entry.

Current ACS system limitations also limit the ability of CBP to accurately monitor the in-bond process, both at the Headquarters and port levels. The lack of an automatic compilation and analysis of audit results at the national level hampers CBP's ability to efficiently and fully determine the effectiveness of in-bond audits, common in-bond errors, and weaknesses in the overall in-bond process.

There was a lack of oversight by CBP over the reset of the Tin-Man function within ACS. As a result, CBP does not have sufficient results to monitor the cargo examination portion of the in-bond process as ports did not perform any Tin-Man generated cargo examinations in FY 2010.

Recommendations:

We recommend that CBP:

1. Continue with the deployment of the Automated Commercial Environment (ACE) system, M1, to replace the M02 and M07 reports and provide guidance to the field once new reports are delivered by OIT;

2. Continue with the deployment of ACE M1 to replace the Tin-Man system and provide guidance to the field;

3. Resolve errors in the universe of overdue air in-bonds. Issue guidance and require ports to run and resolve items on M19 report;

4. Until the deployment of M1, develop or re-emphasize formal requirements for all ports to:
   - Continue to run and resolve items on the M02 and M07 reports throughout the year, and

- Maintain documentation related to the resolution of items on the M02 and M07 reports; and

5. Increase Headquarters oversight of the in-bond process by:
   - Analyzing the summary of post-audits conducted and associated results,
   - Ensuring OIT resets the Tin-Man system at the beginning of the fiscal year, and
   - Performing a formal analysis to determine the overall compliance rate of the in-bond program.

2. Trade Compliance Measurement

Background:

Trade Compliance Measurement (TCM) (previously referred to as Entry Summary Compliance Measurement (ESCM)) provides key data to CBP for the management of risk associated with trade compliance and revenue collection. CBP utilizes TCM to measure the effectiveness of its control mechanisms deployed and its execution in collecting revenues rightfully due to the U.S. Treasury. Further, TCM is used to determine the revenue gap that is reported as "Other Accompanying Information" in the financial statements.

In February 2010, ACS was replaced by the Automated Targeting System (ATS) as the targeting platform and ACE as the findings platform for all ACE and ACS entries. This change affected all future entries, whether filed in ACE or ACS. All determinations for reviews on entry summaries filed are recorded in the Validation Activity (VA) tool in ACE.

Condition:

We noted the following weaknesses related to TCM:

- TCM Coordinators and Headquarters did not have the tools necessary to effectively monitor the TCM program at the port and national level throughout the fiscal year. Through corroborative inquiry at eleven statistically selected ports of entry, we noted an inconsistent use of data queries and reports by the TCM Coordinators to monitor TCM at the ports. Specifically,
  - The Compliance Measurement Accuracy and Tracking System (CMATS) tool was unavailable for use by the TCM Coordinators for FY 2010. CMATS operated off the Customs Automated Port Profile (CAPPS) database and was utilized prior to FY 2010 as a tool to identify data quality errors or anomalies. Per the *Entry Summary Compliance Measurement Policy Memo (FY10)*, issued in September 2009, CMATS and CAPPS were required to be used by the ports until several months after the switch from ACS to ACE. Per discussion with CBP, CMATS and CAPPS were unavailable for use by ports for the entire FY 2010. Until the implementation of ACE in February 2010, a number of "maintenance" reports were available to the ports on a monthly basis. However, not all ports were aware of or used the "maintenance" reports and TCM Coordinators did not have a standard method of monitoring TCM. Additionally, these reports did not provide

Headquarters with timely and efficient review of anomalous and non-anomalous entries, nor the reliability and accuracy of TCM entries.

- Once the TCM program switched from ACS to ACE in February 2010, the expected reporting functionality of ACE did not function properly, and therefore, impeded the ability of Headquarters and TCM Coordinators to pull reports that would provide adequate monitoring of TCM. Limited guidance was given to the ports on how to monitor TCM until the reporting functionality in ACE could be improved. In the fourth quarter of the fiscal year, Headquarters distributed a database to the ports, which provided both Headquarters and the ports with an effective tool to analyze and monitor TCM hits.

- In FY 2008, guidance from the Commercial Targeting and Enforcement Directorate suspended the requirement for TCM Coordinators at the ports to perform random reviews of non-anomalous lines due to an error in the programming of the CMATS tool. This suspension was not replaced by any other data query or tool in FY 2009 or in FY 2010 with the implementation of ACE, thus a comprehensive data quality review has not been fully implemented.

Criteria:

Statement of Federal Financial Accounting Standards No. 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, Section 69.2, *Available Information on the Size of the Tax Gap*, states, "Collecting entities should provide any relevant estimates of the annual tax gap that become available as a result of federal government surveys or studies. The tax gap is defined as taxes or duties due from non-compliant taxpayers or importers. Amounts reported should be specifically defined, e.g., whether the tax gap includes or excludes estimates of taxes due on illegally earned revenue."

OMB Circular A-136, *Financial Reporting Requirements,* Section 4 Part II 5.3, *Tax Burden/Tax Gap,* states:

"Entities that collect taxes may consider presenting the information described below, if the information is readily available and the preparers believe the information will enhance the usefulness of the statements. Refer to SFFAS No. 7 for further guidance.

A perspective on the income tax burden. This could take the form of a summary of the latest available information on the income tax and on related income, deductions, exemptions, and credits for individuals by income level and for corporations by value of assets.

Available information on the size of the tax gap. Collecting entities should provide any relevant estimates of the annual tax gap that become available as a result of Federal surveys or studies."

Cause/Effect:

The current version of ACE does not provide TCM Coordinators at the ports or Headquarters with the appropriate reporting tools to monitor TCM hits. Guidance issued to TCM Coordinators for FY 2010 did not provide for adequate, timely, and efficient oversight of

TCM hits. Policies and procedures were not developed and/or implemented for the entire fiscal year to ensure the reliability and accuracy of TCM input results.

Incomplete guidelines may lead ports to inadequately monitor the TCM process throughout the fiscal year, resulting in a lack of appropriate review of TCM entries. With inadequate oversight of the TCM data, CBP may have an inaccurately projected revenue gap. Additionally, CBP may incorrectly evaluate the effectiveness of its control environment over the collections of duties, taxes, and fees.

Recommendations:

We recommend that CBP:

1. Continue distribution of the monthly TCM database to the ports which satisfies the requirements for TCM Coordinator and Headquarters oversight of the TCM process at the port level.
2. Continue the development of reporting functionalities in ACE to replace the manual TCM databases distributed to the ports.

3. Bonded Warehouse and Foreign Trade Zones

Background:

Bonded Warehouses (BWs) are facilities under CBP's supervision used to store merchandise that has not made entry into the U.S. Commerce. BWs are used to provide a place for storing goods in the U.S. for up to 5 years. The goods that are stored in such warehouses are secured by the bond on the warehouse. Goods are entered into the BW by submission of the CBP Entry Summary Form 7501.

Foreign Trade Zones (FTZs) are secure areas under CBP supervision considered outside of the CBP territory. Authority for establishing these facilities is granted by the 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 moved into zones for operations not otherwise prohibited by law, including storage, exhibition, assembly, manufacturing, and processing. Goods are admitted into a FTZ using CBP Form 214.

Condition:

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

- While CBP has developed national databases within the Automated Commercial Environment (ACE), which contain an inventory of all BWs and FTZs, such databases have not been tested for completeness. In addition, these databases are not currently used to document the assessed risk of each BW or FTZ, scheduled compliance reviews, or the results of compliance reviews. Furthermore, there are no requirements for Headquarters or the Field Offices to compare this database to the compliance review schedules submitted by the ports to ensure that all compliance reviews are performed.

- The current BW and FTZ Compliance Review Handbooks lack specific guidance, in the form of a questionnaire or checklist, for determining the risk assessment of a BW or FTZ. The Compliance Review Handbooks state that a risk assessment should be performed by "analyzing and combining the findings of compliance reviews, security surveys, compliance measurement data, informed and enforced compliance, historical data, and other risk factors listed in this handbook." During FY 2010, CBP created a standard checklist for compliance reviews to be utilized by all ports; however, the checklist has not been incorporated into the BW and FTZ Compliance Review Handbooks, which are the primary resource for CBP Officers completing compliance reviews.

- Headquarters compiles a survey that is completed by the ports at the end of each fiscal year to determine the current status of the BW and FTZ programs. The FY 2010 survey included appropriate data to allow CBP to analyze trends in the BW and FTZ programs; however, the analysis CBP performed was limited in scope and was not formalized or documented. Additionally, there is a lack of communication of the overall findings of the survey to the port level. A memo was issued to the ports from Headquarters at the end of FY 2010; however, the memo included limited information of the overall findings on the overall program effectiveness.

- At eleven statistically selected ports with BW and FTZ facilities, we noted the following specific findings related to BW and FTZ internal controls:
  1. Frequency of Compliance Reviews – Two ports were not conducting the appropriate number of compliance reviews based on guidance in the BW and FTZ Compliance Review Handbooks. Specifically, one port did not schedule or complete any compliance reviews in FY 2010 for BWs and FTZs that had no activity during FY 2009. Additionally, one port appropriately classified several FTZs and BWs as medium or high risk facilities, but did not schedule or perform the appropriate number of compliance reviews during the fiscal year.
  2. Compliance Review Schedules – Lack of review and approval at the Field Offices and/or Headquarters level of compliance review schedules submitted at both ports noted in the above bullet. Currently, there is no requirement for the Field Offices and/or Headquarters to review the compliance review schedules compiled by the port.
  3. Risk Assessment – At one port, for one FTZ activated in FY2010, documentation of an initial risk assessment was unable to be provided.

Criteria:

CBP's supervisory authority over bonded warehouses and foreign trade zones is outlined in 19 CFR Section 19.4(a), "…the port director may authorize a Customs officer to supervise any transaction or procedure at the bonded warehouse facility. Such supervision may be performed through periodic audits of the warehouse proprietor's records, quantity counts of goods in warehouse inventories, spot checks of selected warehouse transactions or procedures or reviews of conditions of recordkeeping, storage, security, or safety in a warehouse facility." 19 CFR Section 146.3 states, "Customs officers will be assigned or detailed to a zone as necessary to maintain appropriate Customs supervision of merchandise and records pertaining thereto in the zone, and to protect the revenue. … Supervision may be performed through a periodic audit of the operator's records, quantity count of goods in a zone inventory, spot check of selected transactions or procedures, or review of recordkeeping, security, or conditions of storage in a zone."

OMB Circular No. A-123 states that "management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations."

Cause/Effect:

CBP does not have effective methods to communicate policies to the ports related to both the frequency of compliance reviews and the documentation of risk assessments. CBP does not have updated formal, comprehensive guidance related to the monitoring of the BW and FTZ programs by Headquarters and the Field Offices, such as procedures to ensure all BWs and FTZs have an appropriate risk assessment and that all necessary compliance reviews are scheduled and completed.

Headquarters cannot effectively monitor the BW/FTZ program if a complete population of all BWs and FTZs is not compiled. Exceptions to and deviations from Headquarters guidance at the port level could affect Headquarters' ability to determine the overall compliance of the BW/FTZ program. If there is insufficient monitoring of BWs and FTZs, BW/FTZ operators may be able to operate BWs and FTZs that contain merchandise without the monitoring of CBP. The lack of a checklist or specific guidance for determining risk assessment could lead to inconsistent procedures in assessing risk at the port level.

Recommendations:

We recommend that CBP:

1. Continue to work with the Office of Administration to develop capabilities that will allow for more varied and extensive reporting of data from port offices.

2. Continue to post information onto the CBPnet secure site regarding bonded facilities.

3. Develop and issue Self Inspection Worksheet questions regarding bonded facilities and compliance reviews.

F. 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 five key control areas: security management, access control, configuration management, segregation of duties and contingency planning. 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 2010, CBP took corrective actions to address prior year IT control deficiencies. However, during FY 2010, we continued to find control deficiencies related to IT general controls and functionality. The key deficiency from a financial reporting perspective relates to information security. Collectively, the IT control deficiencies limit CBP's ability to ensure that critical financial and operational data is maintained in such a manner to ensure confidentiality, integrity, and availability. Additionally, CBP's current system of record used to process entries imported into the U.S. cannot support all of CBP's operations, which limits CBP's ability to effectively manage and monitor the custodial revenue and drawback processes. Because of the sensitive nature of the issues identified, we will issue a separate restricted distribution report that discusses the control deficiencies in more detail.

Criteria:

The *Federal Information Security Management Act* (FISMA), passed as part of the *E-Gov Act of 2002*, mandates that Federal entities maintain IT security programs in accordance with OMB and the U.S. Department of Commerce. OMB Circular No. A-130, *Management of Federal Information Resources*, and various National Institute of Standards and Technology (NIST) guidelines describe specific essential criteria for maintaining effective general IT controls. In addition, OMB Circular No. A-127, *Financial Management Systems,* prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems.

Recommendation:

We recommend that CBP improve the application and general controls over its financial systems to ensure adequate security, protection, and functionality of the information systems.

CBP Response:
See management's response included in the attached letter.

EXHIBIT III

Status of Prior Year Material Weaknesses and Significant Deficiencies

Prior Year Condition	As Reported at September 30, 2009	Status as of September 30, 2010
Financial Reporting	**Material weakness:** CBP's controls did not detect misstatements in its financial statements. In addition, CBP did not have sufficient resources, infrastructure, or communication to timely identify, consider, and resolve significant accounting issues related to new accounting standards, new operations, or changes in operations.	**Significant deficiency:** Weaknesses continue to exist related to timely communication and oversight of financial management issues. See control finding letter B.
Property, Plant, and Equipment (PP&E) – Secure Border Initiative	**Material weakness:** Several weaknesses existed related to accounting for PP&E of the Secure Border Initiative, such as not timely addressing the accounting impact and procedures necessary to account for the virtual fence, miscalculation of depreciation to the FM&E TI physical fence, and reviewing journal entry accruals.	**Significant deficiency:** Although improvements were made, weaknesses continue to exist related to timely addressing accounting issues related to the Secure Border Initiative, which are reported in the Financial Reporting significant deficiency. See control finding letter B.
PP&E – Improper Settlement of Assets from Construction in Progress	**Material weakness:** Weaknesses existed related to the untimely transfer of construction in progress to fixed assets and settlement of assets without proper supporting documentation.	**Significant deficiency:** Weaknesses continue to exist related to untimely transfer of construction in progress in fixed assets. See control finding letter C.
PP&E – Management Oversight of PP&E and Transactions	**Material weakness:** Several weaknesses existed related to oversight of PP&E, such as not properly performing inventory counts, and recording addition and retirement transactions untimely or inaccurately.	**Significant deficiency:** Weaknesses continue to exist related to recording PP&E transactions. See control finding letter C.
Drawback of Duties, Taxes and Fees	**Material weakness:** ACS lacked controls to detect and prevent excessive drawback claims and payments, requiring inefficient compensating manual processes, and the drawback review policies did not require drawback specialists to review all related drawback claims.	**Continue as a material weakness:** Weaknesses continue to exist related to the drawback process in fiscal year 2010. See control finding letter A.
Inactive Obligations	**Significant deficiency:** Weaknesses in CBP's policies and procedures related to the monitoring of obligations, the timely deobligation of inactive obligations, and the timely receipt of certification letters.	**Continue as a significant deficiency**: Weaknesses continue to exist related to monitoring obligations and timely deobligation of inactive obligations. See control finding letter D.

Prior Year Condition	As Reported at September 30, 2009	Status as of September 30, 2010
Entry Process – In Bond	**Significant deficiency:** Several weaknesses existed related to in-bond, such as lack of official guidance related to monitoring in-bond 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.	**Continue as a significant deficiency:** Although improvements were made, weaknesses still remain during fiscal year 2010. See control finding letter E, section 1.
Entry Process – Entry Summary Compliance Measurement (renamed Trade Compliance Measurement in FY 2010)	**Significant deficiency:** Several weaknesses existed related to ESCM, such as inconsistent procedures followed at the ports and development and/or implementation of policies and procedures to ensure reliability and accuracy of ESCM input results.	**Continue as a significant deficiency:** Although improvements were made, weaknesses still remain during fiscal year 2010 related to TCM. See control finding letter E, section 2.
Entry Process – Bonded Warehouse and Foreign Trade Zones	**Significant deficiency:** Several weaknesses existed related to BW/FTZ, such as lack of official risk assessment guidance, lack of a complete inventory of all BWs/FTZs, and lack of management review of the BW/FTZ surveys.	**Continue as a significant deficiency:** Weaknesses continue to exist related to the bonded warehouse and foreign trade zone process during fiscal year 2010. See control finding letter E, section 3.
Information Technology	**Significant deficiency:** Weaknesses were noted in entity-wide security, system access, segregation of duties, service continuity, and system software change management.	**Continue as a significant deficiency:** Weaknesses continue to exist related to IT general and application controls and IT functionality during fiscal year 2010. See control finding letter F.

1300 Pennsylvania Avenue NW
Washington, DC 20229

U.S. Customs and Border Protection

JAN 14 2011

MEMORANDUM FOR:	Richard L. Skinner Inspector General Department of Homeland Security
FROM:	Deborah J. Schilling Chief Financial Officer U.S. Customs and Border Protection
SUBJECT:	Management Response to Independent Auditor's Report on U.S. Customs and Border Protection's Fiscal Year 2010 Financial Statements

On behalf of U.S. Customs and Border Protection (CBP), I am responding to the Independent Auditor's Report on CBP's Fiscal Year (FY) 2010 Financial Statements, which is included in our FY 2010 Annual Financial Report.

I accept the independent public accounting firm's (KPMG LLP) unqualified opinion on CBP's FY 2010 Financial Statements, which concluded that CBP's consolidated financial statements are fairly presented in all material respects and in conformity with accounting principles.

CBP has reviewed and concurs with the one material weakness and the five significant deficiencies. Mission Action Plans (MAPs) outlining CBP's strategy to correct these conditions will be prepared and provided to the Office of Financial Management, 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. If you have any questions or would like additional information, please contact me at (202) 344-2300, or a member of your staff may contact Mari Boyd, Executive Director, Financial Operations, at (202) 344-2364.

Deborah J Schilling

Deborah J. Schilling

Appendix A
Report Distribution

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Other Accompanying Information

Revenue Gap

The Entry Summary Compliance Measurement (ESCM) program collects objective statistical data to determine the compliance level of commercial imports with U.S. trade laws, regulations and agreements, and is used to produce a dollar amount for Estimated Net Under-collections, and a percent of Revenue Gap. The Revenue Gap is a calculated estimate that measures potential loss of revenue owing to noncompliance with trade laws, regulations, and trade agreements using a statistically valid sample of the revenue losses and overpayments detected during ESCM entry summary reviews conducted throughout the year. For FY 2009 and 2008, the Revenue Gap was $285 and $396 million, respectively. CBP calculated the preliminary FY 2010 estimated Revenue Gap to be $91 million. As a percentage, the preliminary Revenue Gap for FY 2010 was 0.28 percent of all collectable revenue for the year. The estimated over-collection and under-collection amounts due to noncompliance for FY 2010 were $51 million and $142 million, respectively. The overall trade compliance rate for FY 2009 and FY 2008 is 98.2 percent and 97.6 percent respectively. The preliminary overall compliance rate for FY 2010 is 98.98 percent.

The final overall trade compliance rate and estimated revenue gap for FY 2010 will be issued in February 2011.

Petitioned and Protested Schedule

An analysis of the changes in petitioned and protested assessed amounts during FY 2010 and 2009 is as follows (in thousands):

	2010					
	Balance October 1	**Additional Assessments**	**Protest in Favor of Debtor**	**Net Reduction Administrative Process**	**Additional Receivable**	**Balance September 30**
Duties	$ 262,455	$ 104,106	$ (27,596)	$ (88,163)	$ --	$ 250,802
Taxes	8,545	1,115	(2,229)	(2,532)	--	4,899
Fees	1,208	1,365	(69)	(1,784)	--	720
Fines/Penalties	1,242,660	923,939	(524,756)	(156)	(286,493)	1,355,194
Interest	201,511	60,919	(5,742)	(20,759)	--	235,929
Antidumping/ Countervailing Duty	442,329	186,927	(4,725)	(57,186)	--	567,345
Refunds and Drawback	12,194	10,139	(1,189)	(14,769)	--	6,375
Total	$ 2,170,902	$ 1,288,510	$(566,306)	$ (185,349)	$ (286,493)	$ 2,421,264

	2009					
	Balance October 1	**Additional Assessments**	**Protest in Favor of Debtor**	**Net Reduction Administrative Process**	**Additional Receivable**	**Balance September 30**
Duties	$ 247,155	$ 126,233	$ (5,365)	$ (105,568)	$ --	$ 262,455
Taxes	300	8,664	(28)	(391)	--	8,545
Fees	692	2,038	(32)	(1,490)	--	1,208
Fines/Penalties	1,222,143	896,041	(416,676)	(199)	(458,649)	1,242,660
Interest	174,003	78,445	(4,945)	(45,992)	--	201,511
Antidumping/ Countervailing Duty	366,400	252,889	(10,350)	(166,610)	--	442,329
Refunds and Drawback	5,722	12,411	(600)	(5,339)	--	12,194
Total	$ 2,016,415	$ 1,376,721	$ (437,996)	$ (325,589)	$ (458,649)	$ 2,170,902

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 to file a protest and application with the Port Director challenging the assessment of supplemental duties, taxes and fees and requesting further review of the protest by CBP Office of Regulations and Rulings. 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's favor.

Additionally, importers and their sureties also have the option to petition for relief after receipt of CBP's 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's mitigation guidelines and directives. Consequently, CBP recognizes accounts receivables only when the petition period has elapsed or when a petition decision has been rendered.

Accounts Receivable with Public, Net

An aging of Accounts Receivables with the Public as of September 30, 2010 and 2009 is as follows (in thousands):

2010	Aged Period					
	< or = 90 days	91 days –1 year	1–2 years	2–3 years	3+ years	Total
Reimbursable Services	$ 389	$ 1,167	$ 325	$ 463	$ 1,563	$ 3,907
User Fees	145,614	1,357	4,268	3,581	12,632	167,452
Gross Receivables	146,003	2,524	4,593	4,044	14,195	171,359
Less: Uncollectible Amounts	--	132	2,736	3,133	11,387	17,388
Net Receivables	$ 146,003	$ 2,392	$ 1,857	$ 911	$ 2,808	$ 153,971

2009	Aged Period					
	< or = 90 days	91 days –1 year	1–2 years	2–3 years	3+ years	Total
Reimbursable Services	$ 498	$ 2,206	$ 569	$ 1,046	$ 3,911	$ 8,230
User Fees	145,615	4,136	21,973	1,009	16,935	189,668
Gross Receivables	146,113	6,342	22,542	2,055	20,846	197,898
Less: Uncollectible Amounts	--	--	3,391	25	13,984	17,400
Net Receivables	$ 146,113	$ 6,342	$ 19,151	$ 2,030	$ 6,862	$ 180,498

Taxes Duties and Trade Receivables, Net

An analysis of the changes in accounts receivable during FY 2010 and 2009 is as follows (in thousands):

2010						
Receivable Category	Balance October 1	Receivables Recorded During the Fiscal Year	Collections	Write-offs	Adjustments	Balance September 30
Duties	$ 1,649,664	$14,858,083	$ (13,310,090)	$ (3,574)	$ (1,032,564)	$ 2,161,519
Excise Taxes	105,481	1,222,065	(1,157,591)	--	(48,673)	121,282
Fees	117,151	1,370,316	(1,292,558)	--	(61,733)	133,176
Fines/ Penalties	521,194	637,542	(57,933)	(39,249)	(607,079)	454,475
Interest	291,084	78,583	(4,886)	(8)	(14,121)	350,652
Antidumping/ Countervailing Duty	420,950	330,245	(180,549)	--	(19,376)	551,270
Refunds/ Drawback	448	448	(290)	--	(20)	586
Total	$ 3,105,972	$ 18,497,282	$ (16,003,897)	$ (42,831)	$ (1,783,566)	$ 3,772,960
Less: Uncollectible Amounts	(1,232,270)					(1,314,313)
Net Receivables	$ 1,873,702					$ 2,458,647

Receivable Category	Balance October 1	Receivables Recorded During the Fiscal Year	Collections	Write-offs	Adjustments	Balance September 30
			2009			
Duties	$ 1,841,687	$ 12,241,022	$ (11,463,503)	$ (5,027)	$ (964,515)	$ 1,649,664
Excise Taxes	98,978	1,937,532	(1,871,670)	--	(59,359)	105,481
Fees	144,799	1,186,052	(1,171,393)	--	(42,307)	117,151
Fines/ Penalties	773,692	31,008,832	(63,943)	(392,346)	(30,805,041)	521,194
Interest	222,699	65,936	(5,243)	(8)	7,700	291,084
Antidumping/ Countervailing Duty	310,097	282,184	(169,209)	--	(2,122)	420,950
Refunds/ Drawback	453	1,033	(897)	--	(141)	448
Total	$ 3,392,405	$ 46,722,591	$ (14,745,858)	$ (397,381)	$ (31,865,785)	$ 3,105,972
Less: Uncollectible Amounts	1,314,393					1,232,270
Net Receivables	$ 2,078,012					$ 1,873,702

An aging of accounts receivables as of September 30, 2010 and 2009 is as follows (in thousands):

2010	< or = 90 days	91 days – 1 year	1–2 years	2–3 years	3+ years	Total
			Aged Period			
Duties	$ 2,008,411	$ 9,656	$ 7,848	$ 23,338	$ 112,266	$ 2,161,519
Excise Taxes	114,802	32	16	2	6,430	121,282
User Fees	136,893	1,436	321	80	(5,554)	133,176
Fines/Penalties	87,539	66,465	100,579	48,482	151,410	454,475
Interest	--	10,321	39,907	21,870	278,554	350,652
Antidumping/ Countervailing Duty	--	39,093	152,038	44,373	315,766	551,270
Refunds and Drawback	--	89	190	14	293	586
Gross Receivables	2,347,645	127,092	300,899	138,159	859,165	3,772,960
Less: Uncollectible Amounts	76,941	103,473	251,906	113,481	768,512	1,314,313
Net Receivables	$ 2,270,704	$ 23,619	$ 48,993	$ 24,678	$ 90,653	$ 2,458,647

2009	< or = 90 days	91 days – 1 year	1–2 years	2–3 years	3+ years	Total
			Aged Period			
Duties	$ 1,498,220	$ 35,217	$ 7,106	$ 4,478	$ 104,643	$ 1,649,664
Excise Taxes	99,003	41	13	2	6,422	105,481
User Fees	109,454	348	88	25	7,236	117,151
Fines/Penalties	39,986	156,664	86,435	52,987	185,122	521,194
Interest	24	26,352	18,665	9,501	236,542	291,084
Antidumping/ Countervailing Duty	24	121,574	45,523	20,556	233,273	420,950
Refunds and Drawback	--	140	15	53	240	448
Gross Receivables	1,746,711	340,336	157,845	87,602	773,478	3,105,972
Less: Uncollectible Amounts	53,037	286,817	130,892	73,759	687,765	1,232,270
Net Receivables	$ 1,693,674	$ 53,519	$ 26,953	$ 13,843	$ 85,713	$ 1,873,702

CBP Collections by Category (in thousands)

Duties	2006 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2009 (Unaudited)	2010 (Unaudited)
Consumption Entries	$ 24,787,051	$ 26,477,180	$ 27,543,807	$ 22,759,054	$ 25,312,699
Warehouse Withdrawals	90,832	80,858	76,910	61,638	54,214
Mail Entries	2,696	4,015	4,223	3,132	3,354
Passenger Baggage Entries	4,386	4,528	3,888	3,217	3,616
Crew Baggage Entries	9	9	8	5	9
Military Baggage Entries	2	1	1	2	2
Informal Entries	57,415	56,026	54,537	47,596	56,200
Vessel Repair Entries	15,742	22,938	43,315	39,240	21,521
Other Duties	37,853	57,122	41,277	33,237	9,747
Total Duties	24,995,986	26,702,677	27,767,966	22,947,121	25,461,362
Miscellaneous					
Violations of CBP Law	49,797	56,434	69,993	59,709	60,380
Testing, Inspecting & Grading	46	34	5,114	39	58
Miscellaneous Taxes	19,803	19,726	20,082	19,413	20,382
USDA Collections	94,359	115,168	112,319	110,425	120,637
Harbor Maintenance Fee	1,206,414	1,261,681	1,467,405	1,125,008	1,221,712
Fees	7,107	6,695	8,134	8,397	7,817
User Fee Account	1,702,043	2,436,087	2,633,600	2,258,027	2,440,275
Unclaimed Funds	991	479	372	276	188
Recoveries	2	2	9	7	--
Interest	8,604	13,229	23,987	30,623	13,555
Other CBP Receipts	17,246	17,382	15,325	22,331	15,329
Total Miscellaneous	3,106,412	3,926,917	4,356,340	3,634,255	3,900,333
Internal Revenue Taxes	2,345,992	2,537,098	2,372,762	2,468,617	2,782,240
Total Collections	$ 30,448,390	$ 33,166,692	$ 34,497,068	$ 29,049,993	$ 32,143,935

These schedules will not equal amounts reported on the Consolidated Statement of Custodial Activity due to timing adjustments and entity collections which are not reported on the Consolidated Statement of Custodial Activity but are included in this schedule.

CBP Collections by Major Processing Port Locations (in thousands)

	2006 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2009 (Unaudited)	2010 (Unaudited)
Boston	$ 478,550	$ 490,841	$ 473,272	$ 399,974	$ 352,710
Buffalo-Niagara Falls	210,888	211,699	219,508	242,514	342,659
Ogdensburg	141,628	155,739	150,884	119,537	132,890
Portland, Maine	57,673	59,000	62,549	55,795	54,993
Providence	83,238	92,454	80,518	75,706	82,532
St. Albans	44,687	42,897	32,817	43,030	46,778
Baltimore	584,719	586,224	637,952	544,222	615,025
Philadelphia	639,201	650,157	588,607	456,252	422,253
Newark	4,362,201	4,552,031	4,642,846	4,036,961	4,347,759
JFK Airport	1,220,472	1,234,035	1,216,836	863,404	961,149
Charleston	1,175,442	1,030,435	1,002,353	820,601	858,098
Miami	752,711	733,596	634,894	520,283	600,506
San Juan	123,132	110,913	108,981	106,167	101,368
St. Thomas	14,819	16,074	17,145	15,301	16,720
Savannah	1,265,007	1,438,061	1,550,580	1,408,693	1,643,027
Tampa	473,650	506,870	516,533	358,532	425,038
Wilmington	290,312	314,993	328,933	267,905	294,996
Norfolk	674,041	685,494	709,807	634,642	604,357
NFC Indianapolis/Washington	914,086	1,518,378	1,941,618	1,107,891	1,418,106
Mobile	157,920	142,869	196,619	157,615	168,661
New Orleans	936,744	1,055,211	1,145,196	942,917	1,011,820
Dallas/Ft Worth	418,128	444,678	460,147	409,354	428,898
El Paso	146,472	196,930	173,202	140,143	139,378
Houston	773,047	805,245	909,631	764,115	735,314
Laredo	370,216	395,215	411,218	371,492	424,299
Port Arthur	28,144	32,604	33,725	33,665	28,584
Nogales	77,832	82,999	82,410	73,703	84,353
Los Angeles	7,258,249	8,138,181	8,387,589	7,468,426	8,565,244
San Diego	259,000	303,717	294,529	218,071	216,275
Anchorage	103,998	110,296	116,518	106,594	124,792
Honolulu	39,670	39,955	43,013	32,732	32,816
Portland	395,707	454,523	443,190	318,839	303,922
San Francisco	945,986	1,084,934	1,161,110	1,035,916	1,115,329
Seattle	1,157,762	1,274,972	1,264,836	1,122,774	1,145,325
Chicago	1,436,691	1,560,159	1,664,181	1,407,416	1,602,089
Cleveland	1,245,447	1,385,583	1,528,043	1,293,102	1,490,599
Detroit	546,870	538,879	563,036	446,972	528,280
Milwaukee	33,230	36,056	37,766	24,687	24,786
Minneapolis	168,568	180,724	198,610	170,645	187,866
Pembina	17,631	18,982	23,635	23,254	23,483
St. Louis	271,647	287,356	282,539	273,758	304,941
Great Falls	152,974	166,733	159,692	136,393	135,917
Total Revenues Collected	$ 30,448,390	$ 33,166,692	$ 34,497,068	$ 29,049,993	$ 32,143,935

These schedules will not equal amounts reported on the Consolidated Statement of Custodial Activity due to timing adjustments and entity collections which are not reported on the Consolidated Statement of Custodial Activity but are included in this schedule.

Summary of Financial Statement Audit and Management Assurances

Table 1 and Table 2 below provide a summary of the financial statement and management assurances for FY 2010.

Table 1: FY 2010 Summary of the Financial Statement Audit

Audit Opinion	**Unqualified**				
Restatement	**No**				

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Management and Reporting	1	0	1	0	0
Property, Plant, and Equipment (PP&E)	1	0	1	0	0
Custodial Revenue and Drawback Controls	1	0	0	0	1
Total Material Weaknesses	3	0	2	0	1

In FY 2010, the Independent Auditor's consolidated financial statement report identified one material weakness, Custodial Revenue and Drawback Controls, for CBP. Material weaknesses in Property, Plant, and Equipment (PP&E) and Financial Management and Reporting were reduced in severity to significant deficiencies as a result of corrective actions implemented by CBP during FY 2010.

Table 2: FY 2010 Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (FMFIA Section 2)						
Statement of Assurance	**Qualified**					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Financial Management and Reporting	1	0	0	0	1	0
Property, Plant, and Equipment (PP&E)	1	0	0	0	1	0
Custodial Revenue and Drawback Controls	1	0	0	0	0	1
Total Material Weaknesses	3	0	0	0	2	1

Effectiveness of Internal Controls Over Operations (FMFIA Section 2)						
Statement of Assurance	**Qualified**					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Business Continuity	1	0	0	0	1	0
Information Security	1	0	0	0	1	0
Total Material Weaknesses	2	0	0	0	2	0

Conformance with Financial Management System Requirements (FMFIA Section 4)						
Statement of Assurance	**Systems conform except for the below non-conformance(s)**					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Financial Systems Security *(previously Information Technology General and Application Controls)*	1	0	0	0	0	1
Core Financial Systems	1	0	0	0	0	1
Total Non-Conformance	2	0	0	0	0	2

Compliance with Federal Financial Management Improvement Act (FFMIA)	
	CBP
Overall Substantial Compliance	No
1. System Requirements	No
2. Accounting Standards	Yes
3. USSGL at Transaction Level	No

Improper Payments Information Act of 2002 (IPIA)

CBP identified and performed a risk assessment on all ten programs, three of which were identified as high risk. CBP performed sample payment testing on these programs. The Custodial Refund and Drawback payment testing yielded an estimated improper payment amount of $2.8 million of the $1.4 billion, or .20 percent, disbursed during fiscal year 2009. The Custodial CDSOA and Payment to Wool Manufacturers payment testing did not identify any improper payments of the $237 million, disbursed during fiscal year 2009. The Border Security Fencing payment testing yielded an estimated improper payment amount of $.2 million of the $638 million testing population, or .03 percent, disbursed during fiscal year 2009.

Recovery Auditing

CBP contracted the audit recovery work for disbursements made during fiscal year 2009. The results of the recovery audit efforts continue to identify negligible recovery 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 PY	Amounts Recovered PY	Cumulative Amounts Identified for Recovery (CY + PY)	Cumulative Amounts Recovered (CY + PY)
$2,396,565,786	$2,396,565,786	$5,409	$13,635	$245,398	$230,679	$250,807	$244,314

In addition, CBP identified amounts for recovery during the Improper Payment Information Act (IPIA) review of FY 2009 Custodial Program disbursements. The IPIA results are as follows (dollars in thousands):

	Amounts Identified as Improper Payments	Amounts Identified for Recovery	Amounts Recovered
Custodial Refund and Drawback	$ 2,813	$ --	$ --
Custodial CDSOA, Cotton, and Wool	$ --	$ --	$ --
Border Security Fencing	$ 171	$ 7	$ --
Totals	$ 2,984	$ 7	$ --

Recoveries for Custodial Refund and Drawback Program payments are restricted by regulations governing collections of duty, taxes, and fees associated with trade-related activity.

(in millions)	2009	2009	2009	2010	2010	2010	2011	2011	2011	2012	2012	2012	2013	2013	2013
Program	**PY Outlays**	**PY %**	**PY $**	**CY Outlays**	**CY IP %**	**CY IP $**	**CY + 1 est. Outlays**	**CY + 1 IP %**	**CY + 1 IP $**	**CY + 2 est. Outlays**	**CY + 2 IP %**	**CY + 2 IP $**	**CY + 3 est. Outlays**	**CY + 3 IP %**	**CY + 3 IP $**
Refund & Drawback	$ 1,418	.20	$ 3	$ 1,198	.02	$ 2	$ 1,350	.07	$ 1	$ 1,350	.07	$ 1	$ 1,350	.07	$ 1
CDSOA-Wool-Cotton	$ 237	--	$ --	$ 263	--	$ 0	$ 250	--	$ --	$ 200	--	$ --	$ 150	--	$ --
Border Security Fencing	$ 1,666	.03	$ .2	$ 562	.01	$ .1	$ 600	--	$ --	$ 600	--	$ --	$ 600	--	$ --
	$ 3,321			$ 2,023			$ 2,200			$ 2,200			$ 2,200		

Note: The law that enacted CDSOA was repealed effective October 1, 2007, which will result in lower refund amounts in 2011. The forecast of activity related to Refund and Drawback depends on indeterminable factors including the volume of trade activity and various trade related issues addressed and ruled on by the Deparment of Commerce.

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

The DHS OIG's report on Major Management Challenges Facing the Department of Homeland Security, OIG-11-11, dated November 11, 2010, and the agency's progress addressing these challenges are addressed at the DHS consolidated level and are incorporated into the DHS Fiscal Year 2010 *Annual Financial Report* (www.dhs.gov/xlibrary/assets/cfo-afrfy2010.pdf).

Acronyms

ABTC	Agricultural/Biological Terrorism Countermeasures
ACE	Automated Commercial Environment
ACS	Automated Commercial System
ACTT	Alliance to Combat Transnational Threats
AD/CVD	Antidumping and Countervailing Duties
AEO	Authorized Economic Operator
AFB	Air Force Base
AFR	Annual Financial Report
AgRA	Agricultural Resource Atlas
AIS	Automated Identification System
AMOC	Air Marine Operations Center
APHIS	Animal and Plant Health Inspection Service
APIS	Advance Passenger Information System
APTL	Agriculture Program Trade Liaisons
ARO	Admissibility Review Office
ARRA	American Recovery & Reinvestment Act of 2009
ATEP	Alien Transfer and Exit Program
ATS	Automated Targeting System
ATSP	Automated Targeting System-Passenger
ATV	All Terrain Vehicles
AUSA	Assistant United States Attorney
BIC	Border Intelligence Centers
BSI	Border Security Initiative
CAMITS	Customs Automated Maintenance Inventory System
CARMAC	Computerized Aircraft Reporting and Material Control System
CBIG	Caribbean Border Interagency Group
CBP	U.S. Customs and Border Protection
CBSA	Canadian Border Services Agency
CCDS	Comprehensive Consequence Delivery System
CDC	Center for Disease Control
CDSOA	Continued Dumping and Subsidy Act
CFO	Chief Financial Officer
CIA	Central Intelligence Agency
CIS	Citizenship and Immigration Services
CLP	Carrier Liaison Program
COAC	Commercial Operations Advisory Committee
COBRA	Consolidated Omnibus Budget Reconciliation
COP	Common Operating Picture
COS	Chief of Staff
CPSC	Consumer Product Safety Commission
CSI	Container Security Initiative
CSRS	Civil Service Retirement System

Acronyms

CTAC	Commercial Targeting and Analysis Center
CTB	Customs Tariff Bureau
CTN	Critical Transit Nodes
C-TPAT	Customs Trade Partnership Against Terrorism
CTTP	Consolidated Trusted Traveler Program
DCR	Diversity and Civil Rights
DEA	Drug Enforcement Administration
DHS	Department of Homeland Security
DIA	Defense Intelligence Agency
DOC	Department of Commerce
DOD	Department of Defense
DOE	Department of Energy
DOJ	Department of Justice
DOL	Department of Labor
DOS	Department of State
DRO	Detention and Removal Operations
EAB	Evaluation Assessments Branch
ECB	External Communication Branch
EEO	Equal Employment Opportunity
eGIS	Enterprise Geopatial Information Services
ER	Expedited Removal
ESCM	Entry Summary Compliance Measurement
ESTA	Electronic System for Travel Authorization
FASAB	Federal Accounting Standards Advisory Board
FAST	Free and Secure Trade
FBI	Federal Bureau of Investigation
FCB	Field Communication Branch
FDA	Food & Drug Administration
FDAU	Fraudulent Document Analysis Unit
FECA	Federal Employees' Compensation Act
FERS	Federal Employees' Retirement System
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Management Act of 2002
FMFIA	Federal Managers' Financial Integrity Act
FOB	Forwarding Operating Bases
FPF	Fines, Penalties and Forfeitures
FPO	Fraud Prevention Officer
FPP	Fraud Prevention Program
FSIS	Food Safety Inspection Service
FTA	Free Trade Agreement
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office

Acronyms

GOM	Government of Mexico
GPRA	Government Performance and Results Act
GSA	General Services Administration
HPPG	High-Priority Performance Goals
HRM	Human Resources Management
HSGP	Homeland Security Grant Program
HTS	Harmonized Tariff Schedule
IA	Internal Affairs
IAFIS	Integrated Automated Fingerprint Identification System
IAP	Immigration Advisory Program
IBET	Integrated Border Enforcement Teams
ICB	Information Coordination Branch
ICE	Immigration and Customs Enforcement
ICPO	International Criminal Police Organization
ICS	International Container Security
IDENT	Automated Biometric Identification System
IDS	Information Display System
ILU	International Liaison Unit
INA	Immigration and Nationality Act
IOFS	Intelligence Operations Framework System
IPEC	Intellectual Property Enforcement Coordinator
IPR	Intellectual Property Rights
IRTPA	Intelligence Reform & Terrorism Prevention Act of 2004
ISA	Importer Self-Assessment
ISA-PS	Importer Self-Assessment Product Safety
IT	Information Technology
ITDS	International Trade Data System
IUF	Immigration User Fees
JSP	Joint Security Program
KCS	Korean Customs Service
LPOE	Land Ports of Entry
LPR	License Plate Reader
MID	Management Inspection Division
MIRP	Mexican Interior Repatriation Program
MLU	Mexican Liaison Units
MOIR	Memoranda of Information Received
MOU	Memorandum of Understanding
MPC	Mobile Processing Center
MRA	Mutual Recognition Arrangement
MSS	Mobile Surveillance System
MVSS	Mobile Video Surveillance System
NARP	National Agriculture Release Program
NII	Non-Intrusive Inspection
NTCC	National Targeting Center-Cargo

Acronyms

NTCP	National Targeting Center-Passenger
OA	Office of Administration
OAM	Office of Air and Marine
OASISS	Operation Against Smugglers Initiative on Safety and Security
OBP	Office of Border Patrol
OCA	Office of Congressional Affairs
OCC	Office of Chief Counsel
OES	Office of Executive Secretariat
OFO	Office of Field Operations
OGA	Other Government Agencies
OI	Office of Investigations
OIG	Office of Inspector General
OIOC	Office of Intelligence Operation Coordination
OIT	Office of Information and Technology
OMB	Office of Management and Budget
ONR	Operation No Refuge
OPA	Office of Public Affairs
OPP	Office of Policy and Planning
OPM	Office of Personnel Management
OPSG	Operation Stonegarden
ORBBP	Operational Requirements Based Budget Program
OT	Office of International Trade
OTIA	Office of Technology Innovation and Acquisition
OTD	Office of Training and Development
OTM	Other Than Mexican
OTR	Office of Trade Relations
PAP	Partnership Action Plan
PAR	Performance and Accountability Report
PGA	Participating Government Agency
PGR	Procuraduría General de la República
PIP	Partners in Protection
PMF	Performance Management Framework
POC	Point of Contact
POE	Port of Entry
POV	Privately-owned vehicle
PPBE	Planning, Programming, Budgeting, and Execution
PPQ	Plant Protection and Quarantine
PRD	Personal Radiation Detectors
PTI	Priority Trade Issues
QC	Quick Court
QHSR	Quadrennial Homeland Security Review
RCMP	Royal Canadian Mounted Police
RFID	Radio Frequency Identification
RIID	Radiation Isotope Identification Devices

Acronyms

RIOS	Radio Interoperability System Monitor
RPM	Radiation Portal Monitor
RVSS	Remote Video Surveillance Systems
SAFE	Safety and Accountability for Every Port Act legislation
SCSS	Supply Chain Security Specialists
SAP	Systems, Applications, and Products
SAR	Search and Rescue
SAP	Systems, Applications, and Products
SBI	Secure Border Initiative
SBREFA	Small Business Regulatory Enforcement Fairness Act
SENTRI	Secure Electronic Network for Traveler Rapid Inspection
SES	Senior Executive Services
SFFAS	Statement of Federal Financial Accounting Standards
SFI	Secure Freight Initiative
SIP	Self-Inspection Program
SIRS	Self-Inspection Reporting System
SRT	Special Response Team
TACCOM	Tactical Communication Modernization Program
TDY	Temporary Duty
TECS	The Enforcement Communication System
TI	Tactical Infrastructure
TIPCC	Trade Integrated Planning and Coordination Cell
TIDE	Terrorist Identifies Datamart Environment
TSA	Transportation Security Agency
TSDB	Terrorist Screening Data Base
UAS	Unmanned Aircraft System
USAID	United States Agency for International Development
USCG	U.S. Coast Guard
USDA	U.S. Department of Agriculture
VWP	Visa Waiver Program
WHTI	Western Hemisphere Travel Initiative
WMD/Es	Weapons of Mass Destruction/Effects

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