


Performance and Accountability Report

Fiscal Year 2006

U.S. Customs and
Border Protection

Table of Contents

Message from the Commissioner

I am pleased to present the Fiscal Year 2006 Performance and Accountability Report for U.S. Customs and Border Protection (CBP).

CBP is the agency within the Department of Homeland Security responsible for managing and securing the borders of the United States. Our priority mission – and our greatest challenge – is to prevent terrorists and terrorist weapons from entering the United States, both at and between the ports of entry. Everyday, over 43,000 CBP officers, agents, and employees work to carry out this extraordinarily important mission while simultaneously facilitating the flow of legitimate trade and travel. This is an undertaking of significant complexity – protecting our borders, and thus our way of life – from multiple threats and in every imaginable geographic environment.

Everyday, employees of CBP carry out important traditional missions: apprehending individuals attempting illegal entry into the United States, preventing the smuggling of illegal drugs and contraband, protecting agricultural and economic interests from harmful pests and diseases, protecting American businesses from theft of their intellectual property, regulating and facilitating international trade, collecting import duties, and enforcing trade laws.

Our responsibilities to protect America and our national economy are not mutually exclusive but, in fact, complement one another. CBP has instituted programs to secure commerce and travel that also make processing legitimate commerce and passengers more efficient.

The Performance and Accountability Report provides information on the strategies, goals and programs that help CBP achieve its mission.

As a result of the Fiscal Year 2006 Financial Statements 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, and reflects a second year of an unqualified audit opinion for CBP.

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

- CBP has evaluated its management controls and financial management systems and is compliant with the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and its internal controls over financial reporting as required by the Department of Homeland Security Financial Accountability Act.

- As a result of CBP's self-assessment, five material weaknesses were identified for fiscal year 2006. Three deficiencies in the areas of drawback, core financial systems, and financial systems security are carryovers from previous years. There are two new deficiencies for fiscal year 2006, one in the area of environmental liability and the other in laptop computer security.
- While current CBP financial management systems do not substantially comply with Federal financial management systems requirements and the U.S. Government Standard General Ledger at the transaction level, CBP is modernizing its financial systems. CBP is now in its third year of utilizing SAP (Systems, Applications, and Products) as an integrated solution for its budget, procurement, asset management, finance, and reporting business processes.
- An independent audit was conducted on CBP's Fiscal Year 2006 Financial Statements by KPMG LLP. Material deficiencies, as evidenced by the auditor's report found in the Financial Section of this report, support those identified through CBP's self-assertion process with two exceptions. The first is the material weakness on environmental liabilities identified by KPMG during the fiscal year 2005 audit but no longer deemed a material weakness in fiscal year 2006. The second is the material weakness on laptop computer security identified by the Department of Homeland Security, Office of the Inspector General, audit in fiscal year 2006.

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

Without security of our borders, our citizens, economy and way of life are vulnerable to disruption and to cataclysmic events that could change the face of our Nation. I am enormously proud to be a part of CBP and am equally proud of the dedicated men and women who work to secure our Nation and its future.

W. Ralph Basham

W. Ralph Basham
Commissioner

November 15, 2006

This page intentionally left blank.

Management's Discussion and Analysis

Overview of CBP

Mission

U.S. Customs and Border Protection (CBP) is the unified border agency within the Department of Homeland Security (DHS) charged with the priority mission of preventing terrorists and terrorist weapons from entering the United States, while also facilitating the flow of legitimate trade and travel. More than 43,000 CBP employees manage, control, and protect the Nation's borders at and between the official ports of entry. CBP is responsible for protecting more than 5,000 miles of border with Canada, 1,900 miles of border with Mexico, and 95,000 miles of shoreline. As the single unified border agency, CBP's mission is vitally important for the protection of the American people and the national economy.

Core Values

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

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

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

Fiscal Year 2006 Statistical Highlights

- Ports of entry : 325 (includes 15 pre-clearance stations)
- Border Patrol Sectors: 20 (with 142 Border Patrol stations nationwide and 35 permanent checkpoints)
- Air units: 44 (including 2 Air & Marine Operations Centers)
- Marine units: 18
- Trade entries processed: 31.1 million
- Total revenue collected: $30 billion
- Illegal narcotics seized: 2.2 million pounds
- Illegal alien apprehensions: 1.3 million (1.1 million between the ports of entry)
- Pedestrians and passengers processed: 422.9 million
- Conveyances processed: 132.4 million

Major Mission Programs/Strategies

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

A few of the major programs are described below.

National Border Patrol Strategy

The ports of entry (POEs) serve as designated access points into and out of the United States. Between these ports lie thousands of miles of open space, deserts, waterways, forests, and prairies, making our Nation's perimeter vulnerable to the threats of terrorism and to exploitation from smugglers of humans and illegal substances. CBP's Office of Border Patrol is responsible for maintaining control of the U.S. borders between the POEs. To assist in achieving its goal, the Border Patrol implemented the National Border Patrol Strategy in 2005.

The five main objectives of the National Border Patrol Strategy are the following:

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

During fiscal year 2006, the Border Patrol continued to refine and build on the successes of the strategy. The Border Patrol continues to employ a variety of programmatic, technological, and tactical approaches to realize progress toward the accomplishment of these objectives.

Operation Jump Start

Operation Jump Start, initiated by the President in May 2006, authorized the Department of Defense (DoD) to provide support, primarily from the National Guard Bureau (NGB), to DHS and CBP to secure and maintain control of the Southwest Border. Operation Jump Start will provide up to 6,000 Army and Air Force National Guard members with supporting resources during the first year of the operation. In its second year, Operation Jump Start will provide up to 3,000 National Guard members. National

CBP Border Patrol agents and National Guard members work together to strengthen and secure the Southwest Border.

Guard members began arriving at Border Patrol sectors in California, Arizona, New Mexico, and Texas in June 2006.

Operation Jump Start is an immediate, short-term measure that allows CBP to advance deterrence measures and border security capabilities while the Office of Border Patrol increases its operational capacity. Recruiting, hiring, and training up to 6,000 additional Border Patrol agents over the next 2 years is a CBP priority. Operation Jump Start leverages a combination of CBP and DoD assets in the form of people, systems, technology, and infrastructure. This collaboration provides a “bridge” that enables the Border Patrol to accelerate its efforts to gain control of the border as DHS implements the Secure Border Initiative (SBI).

NGB forces continue to support CBP by providing mission-enhancing capabilities in the following general, prioritized categories:

- Relieving Border Patrol agents from non-law-enforcement duties such as general, vehicle, and facilities maintenance; control room operations; administrative support; training; and information technology (IT) support.
- Providing enhanced surveillance and reconnaissance capabilities that provide increased detection and tracking capabilities. These operations include operation of mobile, fixed, and airborne sensor systems.
- Providing enhanced intelligence, command, control, and communications capabilities that increase the effectiveness of the border enforcement forces.
- Providing construction support for tactical infrastructure (barriers, fences, roads, light/sensor towers) and facilities (detention facilities, temporary remote base camps, and engineering missions).

Operation Jump Start statistics for fiscal year 2006 include the following:

- Border Patrol agents relieved from non-law-enforcement duties: 384
- Border Patrol apprehensions attributable to the National Guard: 13,196

Arizona Border Control Initiative (ABCI)

ABCI is a year-round initiative with goals of achieving control of the Arizona border and supporting the priority mission of anti-terrorism and the detection, arrest, prosecution, and deterrence of all cross-border illicit trafficking. Phases I and II of ABCI have made significant impacts in disrupting smuggling organizations, reducing crime in border communities, and gaining control of the Arizona border. Implementation of Phase III of ABCI, from April 1, 2006, to September 30, 2006, increased the deployment strength to 250 Border Patrol agents in the Arizona West Desert area extending from Tucson to Ajo, where they made the most impact during the critical summer months. Additionally, a durational deployment of 37 Border Patrol agent (trainees) were detailed to the Nogales Processing Center upon graduation from the U.S. Border Patrol Academy to assist with alien processing. Fifty-five (55) U.S. Immigration and Customs Enforcement (ICE) agents were also deployed to Arizona to assist with transporting illegal aliens out of the West Desert. Until the proper mix of personnel, technology, and infrastructure is achieved, ABCI will continue to engage the illegal cross-border traffic currently impacting Arizona.

Expedited Removal (ER)

A key element of CBP's ongoing efforts to deter illegal entry is the implementation and expansion of ER 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 the recourse of an immigration hearing. 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 port of entry (POE) and within 100 miles of the U.S. border, and who are unable to establish their physical presence in the United States for the 2-week period before the date of encounter.

Before the implementation of ER, illegal aliens who could not be detained because of a lack of detention space were released on their own recognizance. Previously when illegal aliens were released, they agreed to appear at an immigration court for a hearing at a specified time in the future. Often, the illegal aliens would not appear for their hearings and, therefore became part of the growing illegal alien population in the United States. This was the so-called "catch and release" practice. As releases increased, the rate of illegal entry attempts also increased, especially among illegal aliens from Brazil and Honduras. Migration patterns shifted from sector to sector with higher release rates.

The ER program was expanded to include illegal aliens apprehended by Border Patrol on the Southwest Border on September 14, 2004, and later extended to include apprehensions on the Northern Border on January 30, 2006. After ER was implemented in all Border Patrol sectors, almost all Other Than Mexican (OTM) apprehensions are now detained prior to their removal. More than 29 percent of all OTM apprehensions were removed using the ER process during fiscal year 2006. On July 14, 2006, DHS announced the end of catch and release.

Operation Against Smugglers Initiative on Safety and Security (OASISS)

In March 2005, the United States and Mexico agreed to establish a bilateral standardized prosecution program titled "Operation Against Smugglers Initiative on Safety and Security" (OASISS). OASISS is operational at and between the POEs along the California/Baja California and Arizona/Sonora border. Implementation of OASISS began in August 2005 with a total of 6 POEs and 4 Border Patrol sectors, which later expanded to a total of 16 POEs and 5 Border Patrol sectors through the end of September 2006.

Through this program, the Government of Mexico prosecutes smugglers and guides who do not meet the prosecution thresholds in the United States. Engaging the Government of Mexico in border efforts like OASISS assists CBP in more swiftly gaining control of the border. Additional POEs and sectors may be added over the course of 2007.

Fiscal year 2006 resulted in many successes for OASISS:

- Number of Office of Border Patrol (OBP) Cases Generated: 263
- Number of OBP cases presented to and accepted by the Government of Mexico for prosecution: 206
- Number of OBP cases prosecuted by the Government of Mexico: 14

- Number of Office of Field Operations (OFO) cases generated: 41
- Number of OFO cases presented to and accepted by the Government of Mexico for prosecution: 38
- Number of OFO cases prosecuted by the Government of Mexico: 20

CBP Air and Marine (A&M)

On January 17, 2006, CBP consolidated all marine assets and personnel with CBP Air, creating the Office of CBP Air and Marine (A&M). The integration and unification of air and marine resources into one organization supports CBP's mission of anti-terrorism as well as border security, drug interdiction, and other important missions. A&M protects our land and adjacent coastal borders and contiguous airspace and performs additional missions supporting DHS, ICE, Joint Interagency Task Force-South, and other Federal, state, and local law enforcement partners.

A&M performs frequent self-evaluations based on three core competencies: air and marine interdiction, air and marine law enforcement, and domain security. All are critical to the success of DHS's strategic goals. A&M is a key component of CBP's layered enforcement strategy for border security.

Container Security Initiative (CSI)

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

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

CSI consists of four core elements:

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

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. At the end of fiscal year 2006, CBP officers began operations at the 50th CSI port overseas resulting in approximately 82 percent of cargo containers destined for the United States being processed through the 50 operating CSI ports. CBP's goal by the end of 2007 is to expand CSI to cover approximately 85 percent of the sea containers coming to the United States.

As of September 30, 2006, 32 foreign administrations have joined or have committed to join the CSI program. CBP continues to expand the program to additional ports on the basis of volume, location, and strategic concerns. Strong support from countries in Europe, Asia, the Middle East, Africa, North and South America, and the Caribbean ensures that CSI will continue to expand to ports in those areas.

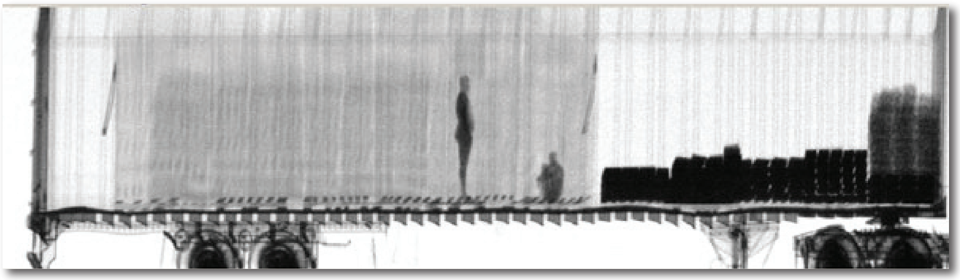
CSI is a reciprocal program that offers participating countries the opportunity to send their customs officers to major U.S. ports to target ocean-going containerized cargo being exported to their countries. Likewise, CBP shares information on a bilateral basis with its CSI partners.

Customs-Trade Partnership Against Terrorism (C-TPAT)

C-TPAT is part of CBP's extended border strategy to protect America against terrorist threats, to protect the global supply chain, and to facilitate trade. Under the C-TPAT initiative, CBP partners with importers, carriers, brokers, and other industry sectors to enhance supply chain security and meet our twin goals of security and facilitation. Membership entails completion of a comprehensive security profile and a commitment to work with CBP to strengthen the supply chain. Once CBP reviews and certifies the submitted security profiles, C-TPAT supply chain security specialists are sent worldwide to validate the commitments of the certified members and recommend areas for improvement. Certified members currently receive considerable benefits, the two greatest being fewer cargo inspections and expedited clearance processes at the border. As of the end of fiscal year 2006, there were 6,114 certified members. In addition, 1,194 applicants were actively pursuing C-TPAT certification.

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

Non-Intrusive Inspection (NII)



Two stowaways are revealed using a non-intrusive inspection device employing gamma-ray technology.

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

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

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

Canine Enforcement Teams

When NII indicates further examination is required, CBP Canine Enforcement Teams are used to determine if the secondary exam is warranted. CBP has the largest and most diverse law enforcement canine program in the United States. CBP canine officers and Border Patrol agents use specially trained detector dogs to combat terrorist threats; identify chemical or explosive threats; and interdict concealed persons, currency, agriculture, narcotics, and other contraband at our Nation's POEs, international mail facilities, and along the border between the POEs. CBP detector dogs also perform Border Patrol Search, Trauma, and Rescue missions.

Canine teams are assigned to 73 POEs and 91 Border Patrol stations throughout the United States. To meet both new and growing threats, the CBP canine program has trained and deployed canine teams in an array of specialized detection capabilities. CBP has two canine enforcement training facilities, located in Front Royal, Virginia, and El Paso, Texas. In fiscal year 2006, more than 300 detector dog teams were trained.

Advance Passenger Information System (APIS)

APIS is the single most critical element of the Nation's ability to identify dangerous individuals entering the United States. This system receives biographical and official passport information on passengers arriving and departing by air and sea. Queries look for matches with multi-agency law enforcement alerts, immigrant visas, and historical databases prior to the passenger's arrival in the United States or departure from the United States. CBP receives advance information on passengers and crew with accuracy sufficient for basic law enforcement queries. CBP has issued a Notice of Proposed Rule Making (NPRM) that requires carriers to provide APIS data in advance of a passenger boarding the intended aircraft or vessel. This NPRM is referred to as "APIS Pre-departure" and allows CBP to check all travelers against government watch lists and provide a "Cleared" or "Not-Cleared" response to the carrier before departure.

National Targeting Center (NTC)

The NTC is the centralized coordination point for all CBP anti-terrorism efforts. The NTC's mission is to provide tactical targeting and analytical research support for CBP anti-terrorism efforts, both locally and nationally. The NTC includes representatives from all CBP disciplines, including the Offices of Field Operations, Border Patrol, Intelligence, Laboratory and Scientific Services, and Information and Technology. Permanent on-site liaisons have also been developed with a variety of external organizations, including the U.S. Coast Guard (USCG), Transportation Security Administration, Department of Energy, Federal Bureau of Investigation, ICE, and the Food and Drug Administration. The NTC strategically enhances U.S. detection and deterrent capabilities by extending them into bio-terrorism prevention and rapid radiological assessments and provides ongoing targeting expertise to the DHS Operations Center.

In fiscal year 2006, two new divisions were created and co-located at the NTC. The Fraudulent Document Analysis Unit removes all fraudulent documents encountered from circulation. It conducts link analysis and develops tactical intelligence that has been successful in targeting and intercepting inadmissible travelers. The Admissibility Review Office provides a dedicated resource with a consistent approach in making determinations of admissibility, inadmissibility, and the exercise of discretion for inadmissible illegal aliens.

Automated Commercial Environment (ACE)

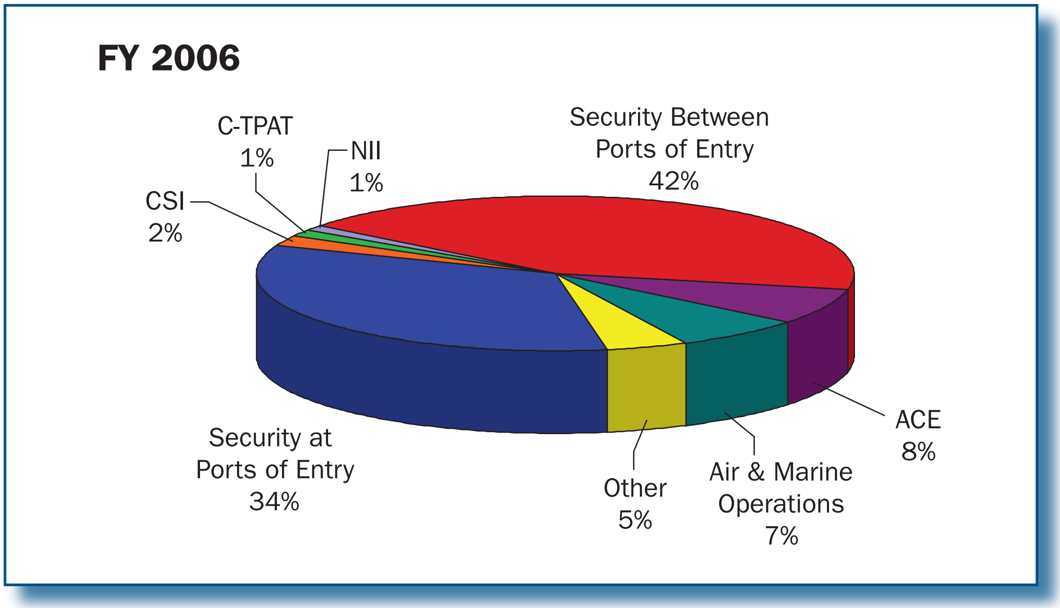
ACE is the modernized U.S. trade processing system designed to consolidate and automate cargo processing to significantly enhance border security and foster our Nation's economic security through lawful international trade and travel. Among other capabilities, CBP personnel will have automated tools and better information to decide, before a shipment reaches U.S. borders, what cargo should be targeted because of the potential risk it poses, and what cargo should be expedited because it complies with U.S. laws.

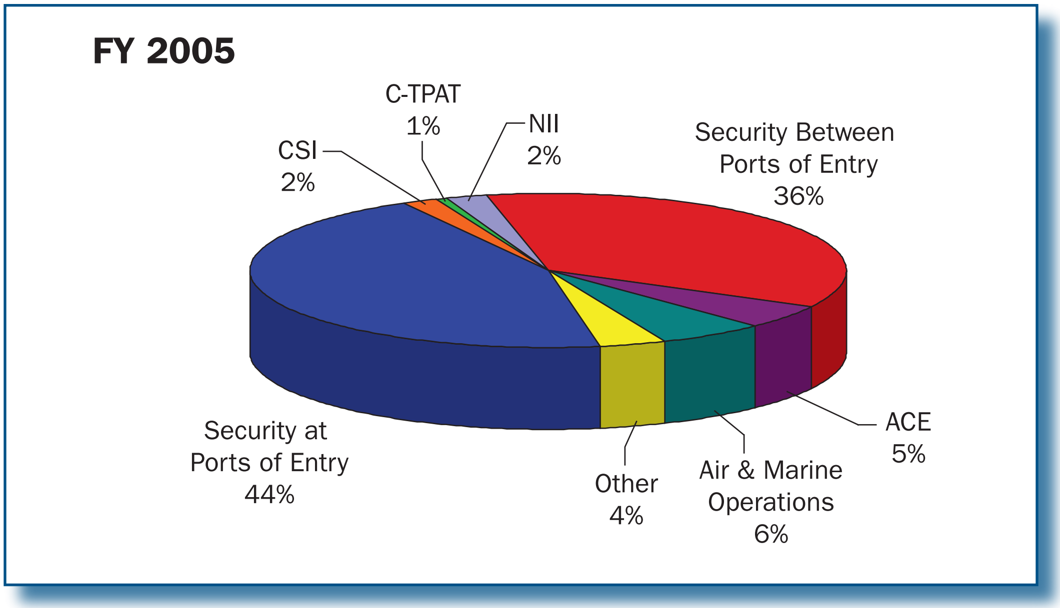
After September 11, 2001, it became evident that the Federal Government had to establish an inter-agency ability to ensure a central information-clearinghouse with compatible databases of information on all aspects of border control. As a result, the scope of ACE was expanded to include all Federal agencies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

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

Budget by Program

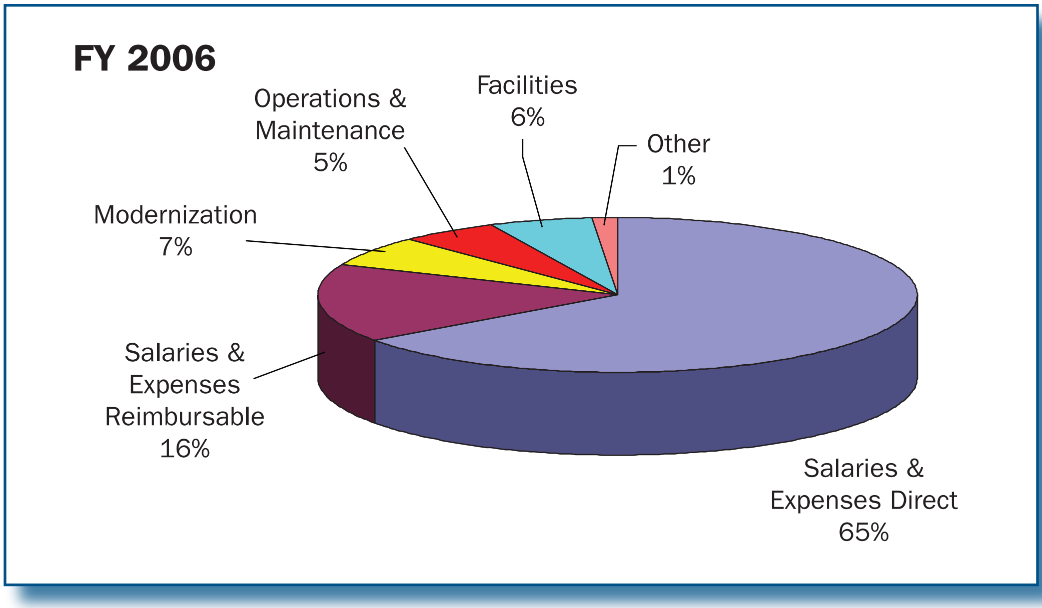
The charts below present a comparison of the fiscal year budgets by major program element for FY 2006 and FY 2005.

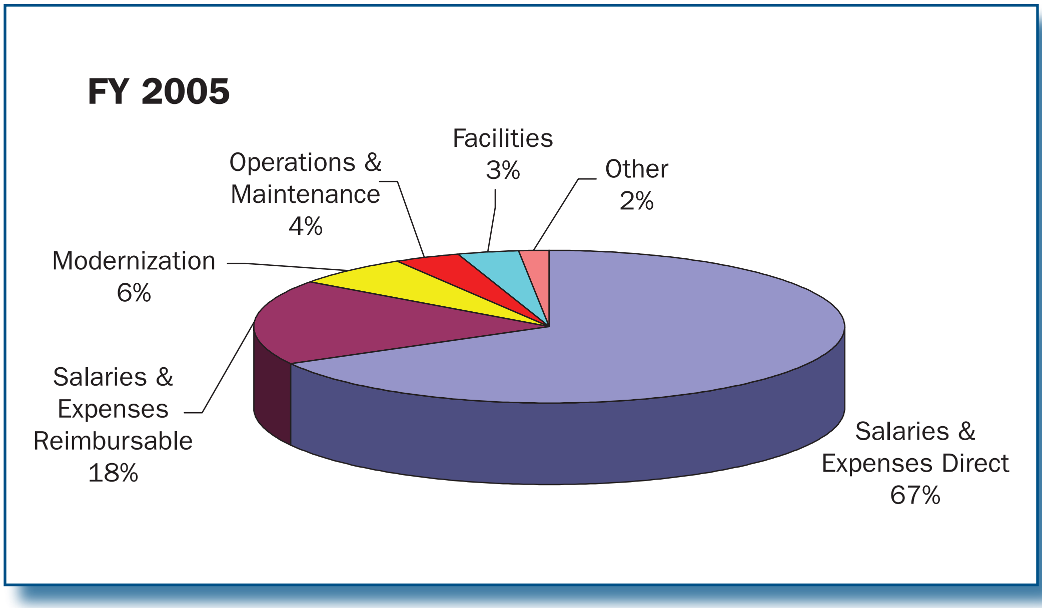




Budget Resource Obligations

The charts below present a comparison of the distribution of CBP budget resource obligations for FY 2006 and FY 2005.





CBP agriculture officers inspect for dangerous exotic pests and diseases, which if allowed to become established in the United States can have a devastating impact on agriculture production.

Looking Ahead

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

Secure Border Initiative (SBI)

SBI is a comprehensive multi-year plan to secure America's borders and reduce illegal immigration. SBI looks at all aspects of the problems of border security: deterrence, detection, apprehension, detention, and removal. As stated by the Secretary of the Department of Homeland Security, the goal of SBI is to develop a comprehensive system of immigration enforcement built on two pillars: border control and interior enforcement. Current SBI focus includes defining the required mix of technology, personnel, infrastructure, and supporting resources, including rapid response capabilities needed to gain effective control of our borders.

In support of SBI, CBP serves as program executive agent under the direction of DHS. The CBP vision for SBI includes the following:

- Increased number of Border Patrol agents to patrol our borders and increased number of CBP officers to secure our POEs while enforcing immigration laws.
- A comprehensive and systemic upgrading of the technology used in controlling the border, including increased manned aerial assets, expanded use of the Unmanned Aircraft System (UAS), and next-generation detection technology.
- Increased investment in infrastructure improvements at the border to provide additional physical security to sharply reduce illegal border crossings.
- Partnership with state, local, and tribal governments; our partners across the Federal Government (Department of Justice, Department of State, etc.); our international partners; and the private sector.

SBI*net*

A critical component of the SBI strategy is the plan to launch a comprehensive program to transform border-control technology and infrastructure.

This program, named "SBI*net*," integrates multiple state-of-the-art systems and traditional security infrastructure into a single comprehensive border protection system.

The goal is to provide a solution that will help CBP:

- Fully integrate and balance the trade-offs of personnel, infrastructure requirements and technology.
- Address the need to coordinate operations and share information.

- Evaluate the illegal entry threat against the current level of resources, prioritize the shortfalls based on areas of greatest operational need, and provide a comprehensive roadmap for achieving full control of the border in the shortest possible time.
- Include a detailed and comprehensive set of performance measures.

Expanding the Use of Biometrics in CBP Programs

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

In August 2005, CBP and US-VISIT began using Radio Frequency Identification (RFID) Technology at selected land crossings along the Canadian and Mexican borders as a proof-of-concept test project. This involves using RFID tags imbedded in the CBP Arrival-Departure Record (Form I-94). The tags transmit a serial number to antennas at the border crossing. The serial number is linked to a database containing personal and biometric information for the individual seeking entrance into the United States. Use of this technology provides CBP with advance information, automatically conducts queries, and prevents the need for manual input of data. This allows CBP officers to facilitate legitimate trade and travel and allow for resources to concentrate more on those persons who may pose a threat to the United States.

CBP has several trusted traveler programs that have integrated the use of biometrics for the identification and validation of persons. The Secure Electronic Network for Traveler Rapid Inspection (SENTRI) program, developed for our southern border, and the NEXUS program, a joint United States-Canada trusted traveler program for the northern border, help to facilitate travel for non-commercial travelers. For commercial drivers, Free and Secure Trade (FAST) is the trusted traveler program implemented for both the northern and southern borders. CBP is also initiating an air environment trusted traveler program called US PASS, which will use fingerprint-based vetting and validation for expedited clearance of the membership.

All CBP trusted traveler programs use a fingerprint capture and validation process for enrollment into the programs. Biometric vetting ensures that candidates for participation in all these programs have no disqualifying prior criminal activity, which would preclude their eligibility for expedited clearance at the land POEs.

CBP Air and Marine (A&M)

Long-range planning in support of CBP A&M mission operations and threat assessments for fiscal year 2006 indicate the need for 14 primary air wing sites, 5 of which are being established along the northern border, and 9 along the southern border, including 2 P-3 maritime aircraft patrol sites. CBP and ICE mission requirements helped dictate the selection of the primary and secondary air wing sites and remain key factors in the selection of new aircraft and associated detection, tracking, and logistics capabilities. The commitment of annual flight hours to specific missions is made through ongoing, formal deliberations with the Office of Border Patrol, USCG, and ICE.

The present air fleet consists of 267 aircraft of 19 different types. Many of these aircraft are dated. Under the Strategic Air Plan, A&M plans to reduce the types of aircraft from 19 to 8. Though smaller, the fleet will be more effective and more sustainable over time. New sensors to optimize the mission capabilities of the P-3 maritime patrol aircraft, light enforcement aircraft, and medium-lift helicopters have been identified. As the operational benefits are fully assessed, CBP will plan for continued sensor upgrades.

Beginning in November 2004, CBP conducted test programs using unmanned aircraft (UA) for surveillance missions along the United States-Mexico border in Arizona. The test results were very positive and CBP initiated an Unmanned Aircraft System (UAS) in 2005. The UAS provides an efficient and reliable supplement to existing detection and intelligence-gathering technologies. UA have a significant advantage over manned aircraft with the capability to fly for more than 30 hours without refueling. This technology has proven highly successful in supporting existing manned aircraft, current ground assets, and in monitoring remote portions of the border that are often difficult to reach safely or are unable to accommodate infrastructure devices.

CBP A&M supports the President's budget request that includes appropriations for a UAS in fiscal year 2007. Ongoing use of this technology will be vital in supporting SBI.

World Customs Organization (WCO)

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

The Framework seeks to:

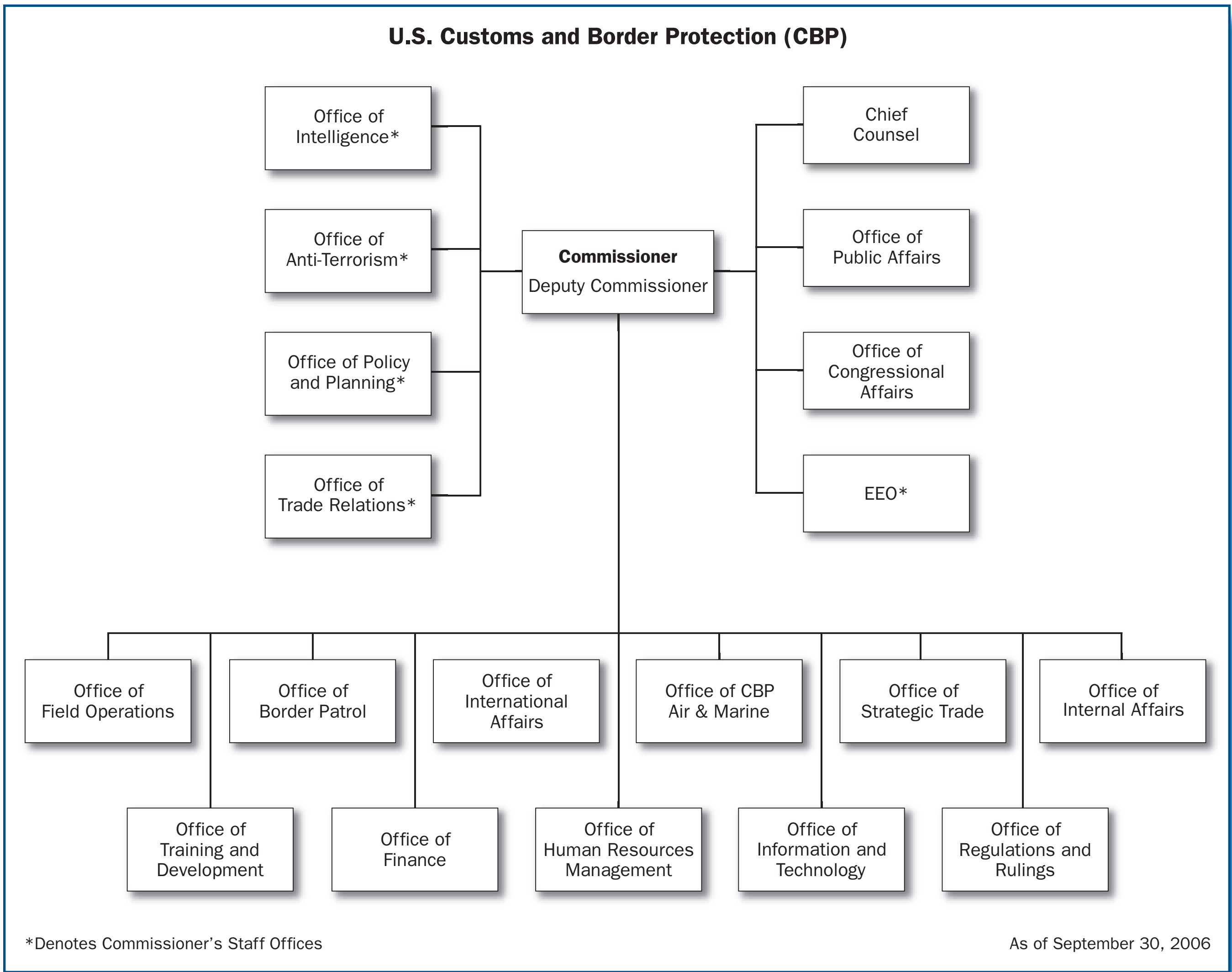
- Consolidate advance electronic cargo information requirements.
- Institute consistent risk management approaches to address security threats.
- Establish procedures so that the customs administration in the destination country of a shipment can request customs in the originating country to conduct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

Implementation represents an extraordinary challenge for the customs administration of any country, particularly for one that may not have the resources or subject matter expertise readily available to implement the practices identified in the Framework. Because CBP recognizes that widespread implementation of the Framework substantially contributes to the major strategic goals of the agency, CBP is providing capacity-building assistance to 12 countries, all of which have demonstrated their commitment to implementation. Such capacity-building assistance takes the form of on-site diagnostic assessments, training, and technical assistance on the most salient issues surrounding the Framework. In 2006, CBP conducted 8 in-country diagnostic assessments, 13 training missions, and 4 senior consultations to raise awareness and support for Framework implementation at the highest political levels.

Summary

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

Organization



Headquarters

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

Office of the Deputy Commissioner: Deborah J. Spero was appointed Deputy Commissioner, CBP, in April 2004. As Deputy Commissioner, Ms. Spero is responsible for providing leadership and executive-level direction to CBP's day-to-day operations. This includes oversight of agency initiatives that facilitate the international movement of legitimate, low-risk goods and travelers while promoting effective border security.

Component Organizations and Field Structure

CBP is organized into 19 separate offices. Five of these are the Commissioner's staff offices, which are responsible for issues falling under the Commissioner's direct operational control and that report directly to the Commissioner. The Commissioner's staff offices are described briefly below. Assistant Commissioners of CBP head 14 additional offices.

Commissioner's Staff Offices

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

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

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

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

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

Assistant Commissioners' Offices

Office of CBP Air and Marine (A&M): Protects the American people and critical infrastructure of our land and coastal borders and the airspace above our borders, using 1,186 field personnel, 267 aircraft, and 190 marine vessels. CBP A&M uses an integrated and coordinated air and marine force to detect, monitor, intercept, and track suspect conveyances involved with the illegal movement of people, illicit drugs, and other contraband through source, transit, and arrival zones, thereby preventing acts of terrorism arising from these actions. CBP A&M further supports DHS missions, such as response and recovery to natural disasters and terrorism.

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

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

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

Office of Field Operations (OFO): Enforces customs, immigration, and agriculture laws and regulations at U.S. borders and has the primary responsibility for preventing terrorists and terrorist weapons from entering the United States at the POEs. OFO maintains programs at 20 field operations offices, 325 POEs which includes 15 pre-clearance stations in Canada, the Caribbean, and Ireland. A Director of Field Operations heads each field operations office. Port Directors oversee POEs in their operational areas, where virtually all conveyances, passengers, and goods legally enter and exit the United States.

OFO oversees the enforcement of laws and regulations while ensuring the safe and efficient flow of goods and people through the POEs.

Office of Finance (OF) and Chief Financial Officer (CFO): Oversees all financial operations, procurement, asset management, and budget activities within CBP. OF is responsible for administering $9 billion that is budgeted annually for law enforcement and trade operations, and collecting over $30 billion in revenue annually. This office is responsible for administering the broad range of financial management activities delineated under the CFO Act of 1990, including accounting, budgeting, procurement, asset management, financial systems, and financial management.

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

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

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

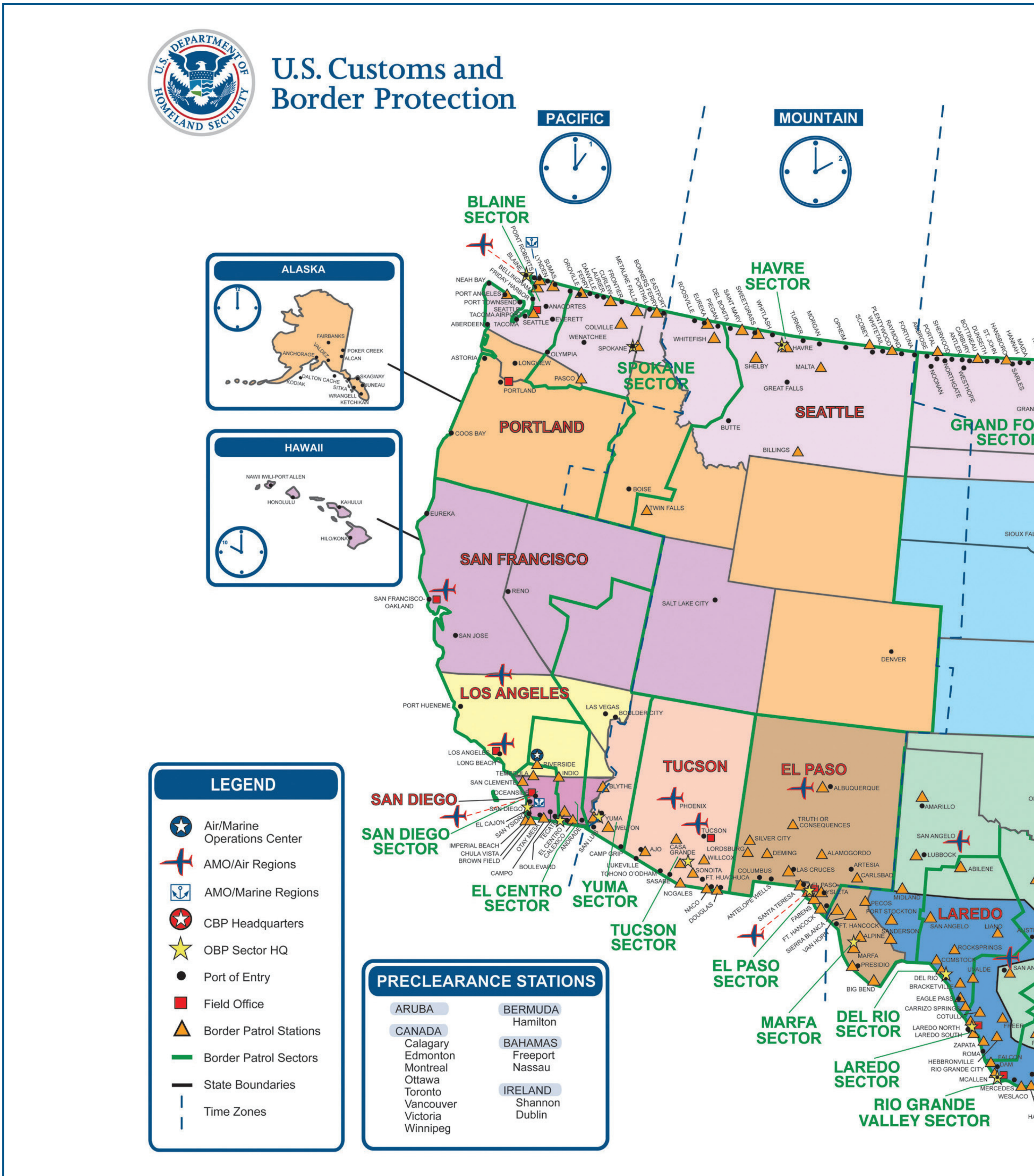
Office of Internal Affairs (IA): Exercises oversight authority for all aspects of CBP operations, personnel, and facilities. IA is responsible for ensuring compliance with all bureau-wide programs and policies relating to corruption, misconduct, or mismanagement; investigating misconduct by CBP employees;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

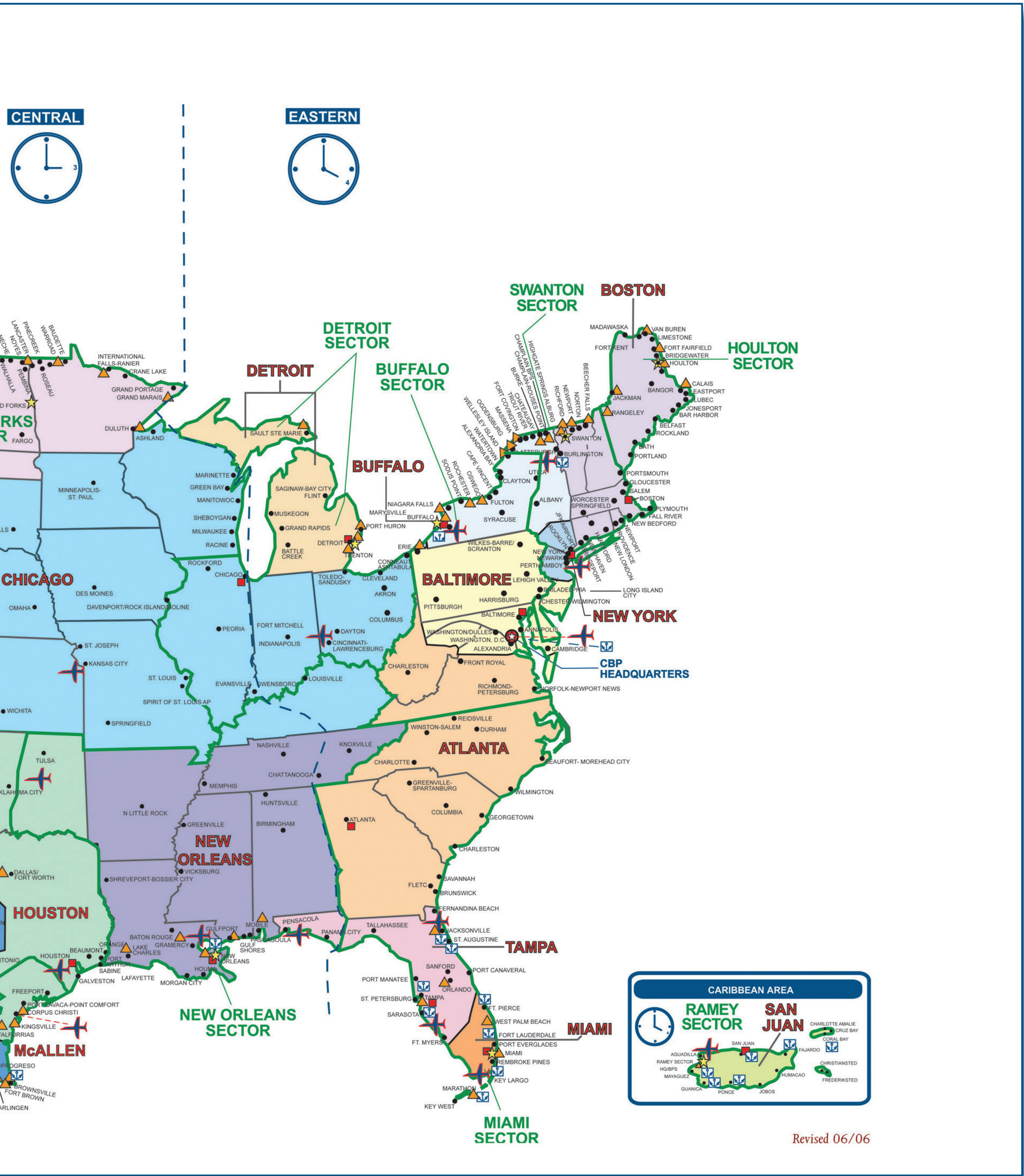
Office of Public Affairs (OPA): Communicates CBP's mission and operations to the agency's chief stakeholders, which include the American public, foreign nationals who conduct business in the United States, international trade entities, and travelers who cross U.S. borders. Tools used in the national and international public communication process include media outreach and public information campaigns conducted via media events, video, photography and informational brochures. In addition, CBP maintains a public web site, *www.cbp.gov,* 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 emailed news compilation “Frontline News,” and mass emails. A bimonthly newsletter, “CBP Today,” is distributed to CBP personnel and other stakeholders nationwide.

Office of Regulations and Rulings (OR&R): Develops, implements, and evaluates national programs, policies, and procedures through the issuance of regulations and rulings affecting the border security and trade facilitation missions of CBP and DHS. OR&R has a major responsibility for providing guidance to members of the international trade community to facilitate compliance with international trade and customs laws. OR&R provides policy and technical support to CBP and DHS, Congress, other government agencies, and international organizations concerning the application of customs and other laws, regulations, and procedures that govern international trade. OR&R issues legal decisions on matters related to claims (including claims for liquidated damages), fines, penalties, and forfeitures. OR&R issues rulings, legal determinations, and guidelines relating to tariff classification and customs value, carriers, duty, drawback, bonds, entry, country of origin, intellectual property rights, restricted merchandise, and disclosure law.

Office of Strategic Trade (OST): Identifies and confronts major trade issues facing the United States through advanced risk management techniques, focusing on priority areas and providing solutions to both enforcement and facilitation challenges. OST is responsible for designing CBP’s multi-discipline trade strategy; developing and applying innovative risk assessment tools such as statistical risk modeling; assessing risks by reviewing corporate controls over trade compliance and trade security in a post-entry audit process; and partnering with the trade community to maintain a high level of compliance, which facilitates the movement of cargo at the border. OST develops and provides trade data, such as statistics and compliance information, in support of CBP’s trade and security missions and programs such as C-TPAT and CSI. OST also publishes compliance data that enable the trade community to initiate its own efforts to achieve compliance.

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


U.S. Customs and Border Protection
U.S. DEPARTMENT OF HOMELAND SECURITY
PACIFIC
MOUNTAIN
ALASKA
FAIRBANKS
ANCHORAGE
VALDEZ
POKER CREEK
ALCAN
DALTON CACHE
SKAGWAY
JUNEAU
KODIAK
SITKA
WRANGELL
KETCHIKAN
HAWAII
NAWILIWILI-PORT ALLEN
HONOLULU
KAHULUI
HILO/KONA
BLAINE SECTOR
HAVRE SECTOR
SPOKANE SECTOR
GRAND FORKS SECTOR
SEATTLE
PORTLAND
SAN FRANCISCO
LOS ANGELES
SAN DIEGO
TUCSON
EL PASO
LAREDO
SAN DIEGO SECTOR
EL CENTRO SECTOR
YUMA SECTOR
TUCSON SECTOR
EL PASO SECTOR
MARFA SECTOR
DEL RIO SECTOR
LAREDO SECTOR
RIO GRANDE VALLEY SECTOR
NEAH BAY
PORT ANGELES
PORT TOWNSEND
SEATTLE
TACOMA AIRPORT
ABERDEEN
TACOMA
ANACORTES
EVERETT
COLVILLE
WENATCHEE
SPOKANE
OLYMPIA
ASTORIA
LONGVIEW
PASCO
PORTLAND
COOS BAY
WHITEFISH
SHELBY
HAVRE
MALTA
GREAT FALLS
BUTTE
BILLINGS
BOISE
TWIN FALLS
EUREKA
RENO
SAN FRANCISCO-OAKLAND
SAN JOSE
SALT LAKE CITY
DENVER
PORT HUENEME
LAS VEGAS
BOULDER CITY
LOS ANGELES
LONG BEACH
RIVERSIDE
INDIO
TEMECULA
SAN CLEMENTE
OCEANSIDE
SAN DIEGO
EL CAJON
BLYTHE
YUMA
WELTON
PHOENIX
TUCSON
AJO
CASA GRANDE
LORDSBURG
WILLCOX
SONOITA
FT. HUACHUCA
NOGALES
NACO
DOUGLAS
SASABE
TOHONO O'ODHAM
CAMP GRIP
IMPERIAL BEACH
CHULA VISTA
BROWN FIELD
CAMPO
BOULEVARD
ALBUQUERQUE
TRUTH OR CONSEQUENCES
SILVER CITY
DEMING
ALAMOGORDO
LAS CRUCES
ARTESIA
CARLSBAD
COLUMBUS
ANTELOPE WELLS
SANTA TERESA
EL PASO
YSLETA
FABENS
FT. HANCOCK
SIERRA BLANCA
VAN HORN
PECOS
FORT STOCKTON
ALPINE
MARFA
PRESIDIO
BIG BEND
SANDERSON
AMARILLO
LUBBOCK
SAN ANGELO
ABILENE
MIDLAND
ROCKSPRINGS
COMSTOCK
UVALDE
DEL RIO
BRACKETVILLE
EAGLE PASS
CARRIZO SPRINGS
COTULLA
LAREDO NORTH
LAREDO SOUTH
ZAPATA
ROMA
HEBBRONVILLE
RIO GRANDE CITY
FALCON DAM
MCALLEN
MERCEDES
WESLACO
SIOUX FALLS
LEGEND
Air/Marine Operations Center
AMO/Air Regions
AMO/Marine Regions
CBP Headquarters
OBP Sector HQ
Port of Entry
Field Office
Border Patrol Stations
Border Patrol Sectors
State Boundaries
Time Zones
PRECLEARANCE STATIONS
ARUBA
CANADA
Calagary
Edmonton
Montreal
Ottawa
Toronto
Vancouver
Victoria
Winnipeg
BERMUDA
Hamilton
BAHAMAS
Freeport
Nassau
IRELAND
Shannon
Dublin


CENTRAL
EASTERN
SWANTON SECTOR
BOSTON
HOULTON SECTOR
DETROIT SECTOR
BUFFALO SECTOR
DETROIT
BUFFALO
CHICAGO
BALTIMORE
NEW YORK
CBP HEADQUARTERS
ATLANTA
NEW ORLEANS
HOUSTON
McALLEN
NEW ORLEANS SECTOR
TAMPA
MIAMI
MIAMI SECTOR
CARIBBEAN AREA
RAMEY SECTOR
SAN JUAN
MADAWASKA
VAN BUREN
LIMESTONE
FORT KENT
FORT FAIRFIELD
BRIDGEWATER
HOULTON
CALAIS
EASTPORT
LUBEC
JONESPORT
BAR HARBOR
BANGOR
JACKMAN
RANGELEY
BELFAST
ROCKLAND
BATH
PORTLAND
PORTSMOUTH
GLOUCESTER
SALEM
BOSTON
PLYMOUTH
FALL RIVER
NEW BEDFORD
WORCESTER
SPRINGFIELD
SWANTON
BURLINGTON
ALBANY
UTICA
CLAYTON
FULTON
SYRACUSE
NIAGARA FALLS
BUFFALO
MARYSVILLE
PORT HURON
DETROIT
TRENTON
SAULT STE MARIE
SAGINAW-BAY CITY-FLINT
MUSKEGON
GRAND RAPIDS
BATTLE CREEK
MARINETTE
GREEN BAY
MANITOWOC
SHEBOYGAN
MILWAUKEE
RACINE
ROCKFORD
CHICAGO
INTERNATIONAL FALLS-RANIER
CRANE LAKE
GRAND PORTAGE
GRAND MARAIS
DULUTH
ASHLAND
FARGO
MINNEAPOLIS-ST. PAUL
DES MOINES
OMAHA
DAVENPORT/ROCK ISLAND/MOLINE
PEORIA
ST. JOSEPH
KANSAS CITY
ST. LOUIS
SPIRIT OF ST. LOUIS AP
SPRINGFIELD
WICHITA
TULSA
FORT MITCHELL
INDIANAPOLIS
EVANSVILLE
OWENSBORO
LOUISVILLE
DAYTON
CINCINNATI-LAWRENCEBURG
COLUMBUS
AKRON
CLEVELAND
TOLEDO-SANDUSKY
ERIE
CONNEAUT
ASHTABULA
WILKES-BARRE/SCRANTON
PITTSBURGH
HARRISBURG
LEHIGH VALLEY
PHILADELPHIA
CHESTER
WILMINGTON
BALTIMORE
WASHINGTON/DULLES
WASHINGTON, D.C.
ALEXANDRIA
ANNAPOLIS
CAMBRIDGE
FRONT ROYAL
CHARLESTON
RICHMOND-PETERSBURG
NORFOLK-NEWPORT NEWS
NEW YORK
NEWARK
PERTH AMBOY
LONG ISLAND CITY
REIDSVILLE
WINSTON-SALEM
DURHAM
CHARLOTTE
BEAUFORT- MOREHEAD CITY
GREENVILLE-SPARTANBURG
WILMINGTON
COLUMBIA
GEORGETOWN
CHARLESTON
ATLANTA
NASHVILLE
KNOXVILLE
CHATTANOOGA
MEMPHIS
HUNTSVILLE
BIRMINGHAM
N LITTLE ROCK
GREENVILLE
VICKSBURG
SHREVEPORT-BOSSIER CITY
SAVANNAH
FLETC
BRUNSWICK
FERNANDINA BEACH
JACKSONVILLE
ST. AUGUSTINE
TALLAHASSEE
PANAMA CITY
PENSACOLA
MOBILE
GULFPORT
PASCAGOULA
GULF SHORES
BATON ROUGE
GRAMERCY
NEW ORLEANS
HOUMA
MORGAN CITY
LAKE CHARLES
LAFAYETTE
ORANGE
BEAUMONT
PORT ARTHUR
SABINE
HOUSTON
GALVESTON
FREEPORT
PORT LAVACA-POINT COMFORT
CORPUS CHRISTI
KINGSVILLE
DALLAS/FORT WORTH
PROGRESO
BROWNSVILLE
FORT BROWN
SANFORD
PORT CANAVERAL
ORLANDO
PORT MANATEE
ST. PETERSBURG
TAMPA
SARASOTA
FT. MYERS
FT. PIERCE
WEST PALM BEACH
FORT LAUDERDALE
PORT EVERGLADES
MIAMI
PEMBROKE PINES
KEY LARGO
MARATHON
KEY WEST
CHARLOTTE AMALIE
CRUZ BAY
CORAL BAY
SAN JUAN
FAJARDO
AGUADILLA
RAMEY SECTOR HQ/BPS
MAYAGUEZ
GUANICA
PONCE
JOBOS
HUMACAO
CHRISTIANSTED
FREDERIKSTED
Revised 06/06

Performance Goals and Results

In fiscal year 2006, CBP made significant progress toward achieving the long-term goals set forth in the Strategic Plan for Fiscal Years 2005–2010. Agency progress is described in this Performance and Accountability Report (PAR). The information is set forth in the context of the Government Performance and Results Act of 1993, which requires Federal agencies to develop and implement processes to plan for and measure mission performance. Since the first full year of CBP operations occurred in fiscal year 2004, four full years of data are not available for trend analysis.

Performance Management

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

The CBP strategic planning framework is organized as follows:

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

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

Fiscal Year 2006 Performance by Strategic Goal

This section presents a discussion of highlighted fiscal year 2006 performance objectives and related key performance measures for each of CBP's strategic goals. Additional performance measures and results can be found in the "Performance" section under "Performance Summary," beginning on page 52.

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

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

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

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

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

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

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

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

FY 2004 Actual: 45% FY 2005 Actual: 73% FY 2006 Target: 81%
Actual FY 2006 Performance: 82%

Target Met

The fiscal year 2006 target was met as a result of CSI's continuing success in gaining cooperation from foreign port administrations during the year. The volume of several ports that became operational in the Middle East, Europe, and South and Central America combined to reach the target.

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

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

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

Key Performance Measure—Number of foreign mitigated examinations waived through the CSI.

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

FY 2004 Actual: 2,400 FY 2005 Actual: 25,222 FY 2006 Target: 24,000
Actual FY 2006 Performance: 30,332

Target Met

The fiscal year 2006 target was met as a result of the collaboration with foreign customs counterparts and the volume of maritime containers that CSI ports have evaluated. The additional volume stems from the continued performance of the existing CSI ports and from the new CSI ports that became operational during fiscal year 2006. New CSI ports in the Middle East, Europe, and South and Central America increased the volume processed through CSI ports.

Note: The fiscal year 2006 target for this measure was estimated based on previous calculations made during the 2006 budget planning process and subsequent issuance of the Fiscal Year 2006 President's Budget.

Data Source: CBP Automated Targeting System.

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

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

Key Performance Measure—Percent of active commissioned canine teams with 100 percent detection rate results in testing of the Canine Enforcement Team.

The Canine Enforcement Program supports the protection of America and its citizens through twice yearly testing of the Canine Enforcement Teams and by maintaining a standard of full detection. To meet both new and existing threats, the CBP canine program has trained and deployed canine teams in a broad array of specialized detection capabilities. Any team exhibiting a weakness in detection capability for an area in which it has been trained must undergo additional training to bring it to a level of full detection.

FY 2004 Actual: N/A FY 2005 Actual: 99% FY 2006 Target: 99%
Actual FY 2006 Performance: 100%

Target Met

The CBP canine program has been successful at maintaining the highest detection rates of any canine program in the country, even though it is the largest and most diverse. This is due to very high training standards and regular testing to identify deficiencies before they become serious problems. CBP will continue to emphasize frequent testing and retraining to continue expanding detection capabilities while maintaining the highest detection rates possible.

Data Source: Canine Enforcement Program.

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

CBP Border Patrol agents patrol a remote area near the U.S. border.

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

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

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

Key Performance Measure—Border miles under control (including certain coastal sectors).

As the Border Patrol moves toward its ultimate goal of control of the border, gains made in improving border security are examined to measure levels of control. The Border Patrol is responsible for the 8,607 miles of land border shared with Mexico and Canada as well as the coastal border areas of the New Orleans, Miami, and Ramey sectors. This measure depicts the number of border miles under control where the appropriate mix of personnel, equipment, technology, and tactical infrastructure has been deployed to reasonably assure that when an attempted illegal alien is detected, identified, and classified, the Border Patrol has the ability to respond and the attempted illegal entry is brought to a satisfactory law enforcement resolution. As the Border Patrol continues toward its forward deployment efforts and resources are deployed based on risk, threat potential, and operational need, the number of miles under control will increase.

FY 2004 Actual: N/A   FY 2005 Actual: 288 Miles   FY 2006 Target: 338 Miles
Actual FY 2006 Performance: 449 Miles

Target Met

The target for fiscal year 2006 was exceeded through the strategic deployment of resources in conjunction with improved intelligence collection, analysis, and dissemination. In priority areas such as the Tucson and El Paso sectors, previously planned deployment of technology and infrastructure coupled with personnel increases resulted in more miles brought under control than expected. In other specific areas of the Del Rio sector, manpower was reallocated based on intelligence and in concert with improved prosecutions of illegal aliens resulting in appreciable gains in miles under control. By deploying NGB members to perform non-law enforcement duties beginning in June 2006, Border Patrol agents returned to border enforcement activities along the Southwest Border, further advancing the miles under control. Improving border miles under control helps keep unwanted illegal activity from entering our borders making our Nation more secure.

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

Strategic Goal #3—Unifying as One Border Agency

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

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

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

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

Electronic targeting systems allow CBP the ability to accurately and efficiently identify a potential risk to border security in any conveyance entering the United States. This effort is improved by linking data sources from CBP automated systems and other government agencies, through ACE, as a single source for border decision-makers.

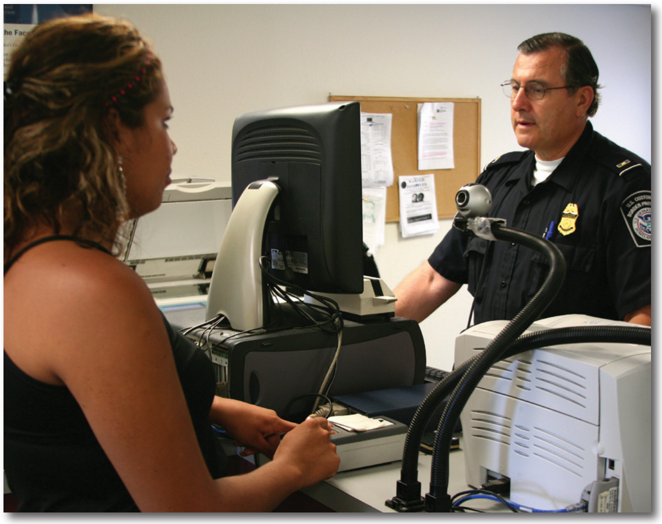
FY 2004 Actual: N/A FY 2005 Actual: N/A FY 2006 Target: 4
Actual FY 2006 Performance: 9

Target Met

Successful completion of the Operational Readiness Review milestone demonstrated the linkage of the data system sources planned, namely the Automated Manifest System, Automated Targeting System, and Automated Commercial System. The addition of other data sources further enriched targeting information provided by other agencies, including the U.S. Postal Service, the USCG's Electronic Notice of Arrival and Departure System, Dun & Bradstreet, the Treasury Enforcement Communication System, the Canadian Customs & Revenue Authority, and the Express Courier.

Data Source: CBP Modernization Office.

Strategic Goal #4—Facilitating Legitimate Trade and Travel



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

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

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

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

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

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

FY 2004 Actual: N/A FY 2005 Actual: 8% FY 2006 Target: 14%
Actual FY 2006 Performance: 23%

Target Met

Use of ACE is increasing through the deployment of e-Manifest: Trucks (Release 4) to both the northern and southern borders. The number of internal users has grown as planned in fiscal year 2006 as a result of deployment to significant land border ports, including San Diego, El Paso, and Buffalo.

Increasing the agency's ACE user base means advanced cargo information will be more widely available thus increasing the use of targeting information to prescreen, target, and identify potential terrorists, terrorist shipments and contraband. Our estimate of the expected population of CBP will be reevaluated regularly to verify it represents the personnel that will use ACE to manage trade information.

Data Source: Automated Commercial Environment system-use metrics.

Key Performance Measure—APIS data sufficiency rate.

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

FY 2004 Actual: 98.0% FY 2005 Actual: 98.6% FY 2006 Target: 99.2%
Actual FY 2006 Performance: 78.9%

Target Not Met

Carrier compliance rates were substantially below the target. New APIS reporting requirements that went into effect in fiscal year 2006 greatly increased the number of reportable data elements from 5 to more than 20. Manually provided data elements such as addresses placed greater responsibility for accuracy at the embarkation point. All data elements on the passenger data record must be transmitted correctly for the record to be counted as valid.

Most carriers spent much of fiscal year 2006 reprogramming their systems to meet the extensive new data requirements. In addition, carriers are having continued difficulty ensuring that legible and valid information is provided for advance transmission in the manually prepared data fields. APIS carrier account managers are working with the carriers to improve data collection procedures and input forms to improve the APIS rate.

Data Source: Airline passenger and crew manifest data.

Performance Objective—Promote industry and foreign government partnership programs.

Through work with the WCO and the G-8, CBP continues to lead the international customs community in developing and ensuring rapid implementation of global supply chain security standards. To increase maritime port security, the agency will work to internationalize C-TPAT through coordination with the international community. Supply chain security specialists will be hired and trained to visit participant facilities to review security practices. CBP intends to build on cooperative “Smart Border” agreements and pursue criminal enterprises involved in internal conspiracies at the POEs.

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

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

FY 2004 Actual: N/A   FY 2005 Actual: 97%   FY 2006 Target: 90%
Actual FY 2006 Performance: 98%

Target Met

In fiscal year 2006, CBP increased the number of validations performed. Over 50 percent of all C-TPAT members have been validated by CBP. A high compliance rate indicates that a high percentage of C-TPAT members are committed to maintaining supply chain security standards and have the required level of security measures in place.

Note: The fiscal year 2006 target for this measure was estimated based on previous calculations made during the 2006 budget planning process and subsequent issuance of the Fiscal Year 2006 President’s Budget.

Data Source: C-TPAT Validation Reports.

Performance Objective—Facilitate international trade and travel.

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

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

This measure demonstrates operational efficiencies that facilitate international trade and travel while supporting effective enforcement. It represents the total number of examinations conducted using NII technology in the sea environment compared to the total number of sea containers that arrived. NII systems provide a quick, safe, and comprehensive method for screening cargo for WMD/Es and other contraband while facilitating legitimate cross-border traffic. NII technology provides a more efficient and effective alternative to 100 percent physical inspection of all targeted high-risk containers.

FY 2004 Actual: 5.2%   FY 2005 Actual: 5.6%   FY 2006 Target: 5.25%
Actual FY 2006 Performance: 5.25%

Target Met

CBP leverages its technology and inspection resources by identifying high-risk containers using techniques such as advance targeting through the Automated Targeting System (ATS), manifest reviews, and informed targeting by officers at the POEs. This process allows CBP officers to screen nearly 100 percent of those containers that are judged to pose the highest risk, as determined by ATS targeting, as well as a large number of lower-risk containers identified for review by officers at the ports based on a variety of identification mechanisms, including cargo manifest reviews, canine examinations, officer-noted irregularities, and random selections. In fiscal year 2006, a substantial amount of new NII equipment was put into place at the ports and older equipment was phased out.

CBP will continue to increase the number and mix of NII equipment available at the POEs to meet our overall desired capability and individual port operational requirements.

Note: The fiscal year 2005 actual was revised based on the fiscal year 2006 validation process. Fiscal year 2005 results were not impacted by this revision.

Note: The fiscal year 2006 target for this measure was estimated based on previous calculations made during the 2006 budget planning process and subsequent issuance of the Fiscal Year 2006 President's Budget.

Data Source: Operations Management Reports Data Warehouse.

Strategic Goal #5—Protecting America and Its Citizens

Specially trained detector dogs combat threats against the United States as varied as terrorism, chemicals, explosives, and smuggling.

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

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

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

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

This measure demonstrates the high level of compliance of air travelers with the regulations governing the types of agricultural products that can safely be brought into the United States. The information collected from agriculture inspections helps CBP estimate the percentage of compliance and yields a detailed understanding of the threat risk of agricultural pests and diseases entering the United States.

FY 2004 Actual: 97.0% FY 2005 Actual: 95.8% FY 2006 Target: 97.0%
Actual FY 2006 Performance: 95.5%

Target Almost Met (within 5 percent of target)

The goal for compliance of air passengers with agricultural regulations for fiscal year 2006 was almost met. High-risk ports are not yet fully staffed with trained CBP agriculture specialists, although CBP is diligently working toward staffing existing vacancies. Analysis indicates that higher rates of interceptions occurred during shifts when CBP agriculture specialists were readily available.

CBP has shown significant success in achieving compliance over historical rates. The goal was originally set at 95 percent compliance by the U.S. Department of Agriculture (USDA) but raised to the current level of 97 percent by CBP. The goal has been set at a level that is high by historical standards and is a challenge for CBP to continue to meet on an ongoing basis. CBP will maintain its current mix of programs while continuing its emphasis on filling CBP agriculture specialist vacancies, with a priority given to high-risk ports, and providing additional specialized agricultural training to CBP officers.

Data Source: USDA Work Accomplishment Data System (WADS), Agricultural Quarantine Inspection monitoring activities. Compliance rates are calculated using random statistical sampling procedures.

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

> *Key Performance Measure*—Percentage of no-launches to prevent acts of terrorism and other illegal activities arising from unlawful movement of people and goods across the borders of the United States.

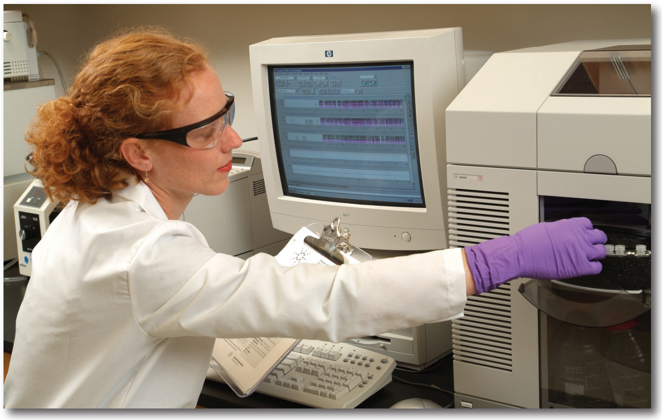
The most important outcome of any air force is its capability and/or capacity to launch an aircraft when a request is made for aerial support. The annual “no-launch rate” shows the percent of all requests CBP A&M was unable to respond to on the basis of three factors: an aircraft was unavailable due to maintenance, the correct type of aircraft needed for the mission was unavailable, or the correct type of aircraft was available but without the correct crew to launch. There are numerous other reasons why aircraft do not launch; however, these are the ones currently used to monitor progress.

FY 2004 Actual: N/A FY 2005 Actual: N/A FY 2006 Target: Less than 23%
Actual FY 2006 Performance: 7.5%

Target Met

In fiscal year 2006, all air assets of CBP were merged into CBP A&M with the priority mission of preventing acts of terrorism and other illegal activities arising from unlawful movement of people and goods across the borders of the United States. This merger created the largest law enforcement air force in the world, with enhanced mission support to A&M’s primary customer, the Office of Border Patrol. More air assets were realigned to the Southwest Border of the United States in support of ABCI Phase III, with increased operations tempo. Although this operation put a strain on the assigned aircraft, causing increased maintenance/ground time, A&M was able to launch aircraft in support of most missions. As air assets are relocated from other regions of the United States, in some cases, sufficient aircraft may not be available to support all requests. However, A&M has plans to relocate assets and personnel permanently to the Southwest Border in support of the CBP primary mission, acquire additional aircraft and unmanned aircraft, and hire additional personnel to achieve and maintain future projected no-launch targets. Having appropriate aircraft resources available deters and reduces possible acts of terrorism as well as disrupts the supply and reduces the quantity of drugs entering the United States.

Data Source: Air and Marine Operations Reporting System (AMOR).



A CBP forensic scientist places samples in a liquid chromatograph. Chromatographs separate samples into their different components.

Strategic Goal #6—Modernizing and Managing

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

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

> ***Key Performance Measure***—Percent of trade accounts with access to ACE functionality to manage trade information.

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

FY 2004 Actual: N/A   FY 2005 Actual: 1%   FY 2006 Target: 4%
Actual FY 2006 Performance: 3.5%

Target Not Met

ACE and its secure data portal feature offers unprecedented information integration and communication between CBP, the trade community, and other participating government agencies through a single, on-line access point. As of September 2006, there were 3,737 ACE trade accounts. Growth in the number of ACE accounts is primarily attributable to the successful deployment of ACE cargo processing capabilities at land border ports.

Future actions to increase participation include trade community conferences and seminars on both sides of our borders with Mexico and Canada, trade shows, print media, radio advertising, and local television, radio, and newspaper interviews. Our original estimate of the expected population of trade users is being revisited to better reflect the expected user base. Initial results indicate that the expected total number of trade accounts appears to have been overstated and fiscal year targets will need adjustment.

Data Source: CBP Modernization Office.

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

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

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

TECS is a CBP mission-critical law enforcement application designed to identify individuals and businesses suspected of, or involved in, violation of Federal law. TECS is a communications system permitting message transmittal among DHS law enforcement offices and other Federal, state, and local law enforcement agencies. TECS provides access to the National Crime Information Center and the National Law Enforcement Telecommunication System (NLETS), with the ability to communicate directly with state and local enforcement agencies. NLETS provides direct access to state motor vehicle departments. This performance measure shows the established service-level objective that the end-user experiences in terms of TECS service availability.

FY 2004 Actual: N/A FY 2005 Actual: 96.2% FY 2006 Target: 92%
Actual FY 2006 Performance: 98%

Target Met

During the month of August 2006, the TECS processor was upgraded to increase the number and speed of system processors, further decreasing response time and increasing processing power, to support ever-increasing volume demands. On the basis of these accomplishments, CBP foresees no technical or environmental changes that would affect the ability to continue to provide successful system access to end-users.

Note: The fiscal year 2006 target for this measure was estimated based on previous calculations made during the 2006 budget planning process and subsequent issuance of the Fiscal Year 2006 President's Budget.

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

Management Assurances

Overview

To comply with the provisions of the Federal Managers' Financial Integrity Act of 1982 (FMFIA); the DHS Financial Accountability Act of 2004; the Reports Consolidation Act of 2000; the Federal Financial Management Improvement Act of 1996 (FFMIA); The Federal Information Security Management Act of 2002 (FISMA); and the Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control," revised December 2004, the Commissioner of CBP must provide annual assurance statements to DHS regarding CBP's management and financial system controls, internal controls over financial reporting, and performance data reliability. Any material weaknesses or deficiencies are reported in the statements. Information for these statements is derived from GAO and DHS OIG reviews, independent audits, and self-assessments provided by CBP management.

Federal Managers' Financial Integrity Act (FMFIA)

In accordance with FMFIA and OMB Circular A-123, CBP has evaluated its management controls and financial management systems for the fiscal year ending September 30, 2006. Through our annual self-assessment process and GAO/OIG reviews for fiscal year 2006 we are reporting three open material weaknesses from prior years and two new material weaknesses.

Drawback Controls

Drawback involves the reimbursement of duties paid by an importer on materials or merchandise imported into the United States and subsequently exported. In 1993, deficiencies were reported in the controls to prevent excessive drawback claims. ACS cannot compare entry and export information electronically; therefore, CBP uses a risk-based sampling approach to review drawback claims. However, the methodology used did not provide adequate measurement and statistical projection of the results of the control process. In fiscal year 2005, a statistically valid methodology was developed to partially resolve the issue, but the final solution is to provide electronic tracking and control of drawback claims from importation through exportation. This solution is not targeted for completion until the implementation of ACE Release 7 in 2009. However, a September 2006 decision by Congress to not pursue changes to the current drawback statutes may adversely affect the implementation of this solution.

Core Financial Systems

This material weakness was first reported in 1993 when it was noted that agency core financial systems were not integrated and did not provide certain financial information for managing operations. With the implementation of Systems, Applications, and Products (SAP) Release 3 in October 2004, 10 of the 11 corrective actions have been completed. The remaining open issue relates to the integration of the ACE and SAP systems. The ACE Entry Summary, Accounts, and Revenue Drop 2 that is targeted for implementation by July 2008 will have full financial information and interface established in ACE.

Financial Systems Security

In the Fiscal Year 2005 DHS Financial Statements Audit Report, auditors expanded this DHS material weakness to include IT and financial system control weaknesses in addition to weaknesses in CBP security controls affecting headquarters and the National Data Center management and staff's system access to CBP applications and data (formerly Financial Systems Functionality and Technology). To address the systems access component of this weakness for the Windows NT platform, the DHS Active Directory infrastructure is required. For the Novell network and Sun servers, alternative strategies are required. Of the 20 milestones identified to correct this aspect of the material weakness, 11 remain outstanding. The remaining milestones are targeted for completion in fiscal year 2007.

The IT and financial system control aspect of this material weakness was identified in 30 Notices of Findings and Recommendations (NFRs) issued during CBP's Fiscal Year 2005 Financial Statements Audit. CBP has completed all planned milestones for 17 of the 30 NFRs.

Environmental Liabilities

As a result of the CBP Fiscal Year 2005 Financial Statements Audit, auditors identified a material weakness in the management of CBP's environmental liabilities program. CBP has completed all major milestones established to implement auditor recommendations. Validated auditor results of CBP's Fiscal Year 2006 Financial Statements Audit reflect the elimination of the CBP material weakness in environmental liabilities.

Laptop Computer Security

During fiscal year 2006, the DHS OIG noted weaknesses related to CBP's inventory control, inventory review, and training of local property officers regarding laptop computer security. In addition, a security issue related to controls ensuring laptop computers are cleared and sanitized prior to reissue or disposal was identified. CBP has determined that compliance with established procedures is the issue and has established milestones to be implemented throughout fiscal year 2007 to correct this weakness.

DHS Financial Accountability Act

The DHS Financial Accountability Act requires an assertion of internal controls over financial reporting. For fiscal year 2006, the scope of CBP's assessment of internal controls over financial reporting included performing tests of design over financial management processes related to entity-level internal controls, financial reporting, funds management, and CBP's Emergency Response Plan. CBP's fiscal year 2006 Internal Control Assertion Statement provides reasonable assurance that internal controls over financial reporting related to these processes were designed effectively.

Reports Consolidation Act

The Reports Consolidation Act requires an assessment of the completeness and reliability of the performance data used in an agency's Annual Performance and Accountability Report. Performance data used in this CBP Fiscal Year 2006 Performance and Accountability Report are complete and reliable.

Federal Financial Management Improvement Act (FFMIA)

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

Federal Information Security Management Act (FISMA)

The Federal Information Security Act (FISMA) requires agencies to conduct an annual self-assessment review of their IT security programs, and to develop and implement corrective actions for identified security weaknesses and vulnerabilities. CBP has completed a comprehensive self-assessment for fiscal year 2006 and can state with reasonable assurance that the IT security controls are in compliance with FISMA, with the exception of the material weakness previously discussed.

Systems and Controls

Overview

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

Data Systems and Controls: Performance data for the planned performance measures are generated by automated management information and workload measurement systems and reports as a by-product of day-to-day operations. All levels of management routinely monitor the data systems and controls. CBP management has reviewed the performance measurement data for fiscal year 2006 and has determined, with reasonable assurance, that the data are complete, accurate, and reliable.

Audit of the Fiscal Year 2006 CBP Consolidated Financial Statements: As directed by DHS to assist the Department in complying with the Chief Financial Officer's Act of 1990, DHS's independent auditors, KPMG LLP, audited CBP's consolidated financial statements (Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, Consolidated Statement of Financing, and Consolidated Statement of Custodial Activity), hereinafter referred to as the "financial statements." The objective of the audit is to determine whether the financial statements fairly present the financial position of CBP. Audit reviews evaluate assets, liabilities, net position, net costs of major CBP programs, availability of budgetary resources, finance activity, budgetary spending, and revenue from collections and refunds. An audit consists of examining, through various sampling methods, evidence supporting the amounts and disclosures in the financial statements. The Independent Auditor's Report can be found on page 114.

Self-Inspection Program (SIP)

SIP was developed to emphasize managerial accountability and provide a mechanism for management oversight of CBP programs and processes. SIP, along with other methodologies, helps CBP meet Federal management control requirements established by FMFIA and OMB Circular A-123, revised. SIP provides a method by which CBP headquarters and field managers conduct internal assessments of their operations and report on the results by completing self-inspection worksheets developed by national program managers. In completing and certifying the results of their self-inspections, managers assess whether their area of responsibility is:

- properly implementing established programs, policies, procedures, and strategies that support mission/program accomplishment;
- ensuring the security of funds, property, and other agency resources; and
- complying with Federal laws and regulations.

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

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

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

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

Financial Management

Overview

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

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

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

President's Management Agenda (PMA)

In 2001, the PMA was implemented as a management reform initiative established to identify deficiencies and improve performance within the Federal Government. For fiscal year 2006, the PMA focused on six key management initiatives across the Federal Government: (1) Strategic Management of Human Capital, (2) Competitive Sourcing, (3) Improved Financial Performance, (4) Expanded Electronic Government, (5) Budget and Performance Integration, and (6) Asset Management (Real Property). Federal Executive agencies are tracked, via a "scorecard," on how well the departments and major agencies are executing the six government-wide management initiatives.

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

The following highlights CBP's accomplishments during fiscal year 2006 in the key areas.

Human Capital

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

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

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

Throughout fiscal year 2006, CBP continued to support the effective implementation of MAXHR, the DHS-wide pay-for-performance management system that is designed to facilitate a high-performance culture by developing clear performance standards closely linked to the agency's mission and allowing for monetary incentives to employees who exceed performance expectations. Ultimately, MAXHR will enable CBP to attract and retain mission-critical leadership and talent.

Competitive Sourcing

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

During fiscal year 2006, CBP has done the following:

- Completed two streamlined competitions for the payroll processing and position classification function. The personnel processing competition, although initiated at the same time, was canceled after a thorough review of the competition process and discussion among senior management. Management determined that it would be more effective to complete the function as part of the larger human resources standard competition scheduled for a later date.
- Initiated post competition accountability efforts, as required by OMB Circular A-76.
- Reviewed all positions and categorized the functions of the positions as commercial or inherently governmental, as required annually by the FAIR Act. This inventory process further requires agencies to assign a function code to the position and identify whether the function performed is suitable for competition with the private sector.
- Initiated the update of long-range plans directed at achieving "green" status on the PMA scorecard, specifically for the Competitive Sourcing Initiative, as required by OMB.

Financial Performance

The PMA initiative for Improved Financial Performance directs agencies to possess more timely and reliable financial information, improve the integrity of their financial activities, and have sound and dependable financial systems. CBP has fully supported this PMA initiative with its implementation of the DHS Financial Accountability Act. The Act requires DHS and its components to meet internal control requirements in advance of all other Federal agencies. In implementing the DHS Financial Accountability

Act, the DHS Chief Financial Officer has established a strategy of eliminating material weaknesses in internal controls over financial reporting and obtaining an unqualified audit opinion on the DHS consolidated financial statements. In support of this strategy, CBP has done the following:

- Received an unqualified audit opinion on its Fiscal Year 2005 Consolidated Balance Sheet.
- Underwent a full-scope financial statements audit as a stand-alone entity for fiscal year 2006.
- Prepared and initiated corrective action plans to resolve auditor-identified and Integrity Act material weaknesses in internal controls. This includes developing annual risk management plans and risk mitigation plans that include milestones to proactively monitor and resolve identified issues of weakness in internal controls processes that may affect resources.
- Maintained accountability for financial and performance information during operational evaluation and decision-making through quarterly reviews. Management of financial and performance data in FYHSP allows senior management to complete program evaluations and make funding decisions.

E-Gov

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

In 2006, CBP successfully certified and accredited all major IT systems and projects and met its goal of full compliance for the fiscal year. CBP is also working to align major IT systems with the Federal Enterprise Architecture's Lines of Business to eliminate duplicate processes and improve system efficiency and effectiveness.

Budget and Performance Integration

The Budget and Performance Integration Initiative builds on the Government Performance and Results Act of 1993 (GPRA) and the Homeland Security Act of 2002, which directs DHS to identify program goals and performance measures and link them to the budget process. DHS created FYHSP to communicate to Congress its resource plans, performance, and milestones for 5 years for programs that support DHS strategic goals and objectives.

In support of FYHSP, CBP regularly monitors external program evaluations, develops and tracks meaningful performance measures, improves out-year planning with program milestones, creates programmatic strategic plans, and conducts risk management. Information on these activities is shared with senior management to ensure that they make informed resource allocation decisions.

Asset Management (Real Property)

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

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

- Land, Air, and Sea Ports of Entry;
- Border Patrol Sector HQs, Stations, Checkpoints, and Remote Operating Bases;
- Tactical Infrastructure on the border, including barriers, fencing, lighting, patrol roads, bridges, drainage structures, and control of brush and other obstructions;
- Air and Marine Operations Facilities;
- Detention and Removal Facilities;
- Laboratories and other special use space; and
- Administrative space.

In support of the PMA during fiscal year 2006, CBP has done the following:

- Reconciled and completed 100 percent of the capitalized inventory.
- Implemented the National Signage Program.
- Modified SAP to accommodate the Federal Real Property Program (FRPP) reporting requirements.
- Made progress toward eliminating gaps in FRPP reporting by CBP in support of the PMA performance measures.
- Consolidated space for the tactical air programs through the formation of the Office of CBP Air and Marine in support of the PMA space consolidation requirements.
- Restructured Asset Management to more effectively support real property by creating a Real Property Division.
- Completed the work scope development of our Strategic Facilities Assessments of all CBP facilities to determine their condition index.
- Submitted Asset Management's Strategic Plan to DHS.

Improper Payments Information Act of 2002 (IPIA)

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

DHS issues IPIA guidance for its component agencies including CBP. It requires sample payment testing for all CBP fiscal year 2005 programs but excludes payments relating to payroll and to other Federal agencies. It also requires that an independent statistician examine the payment data, design sample testing parameters, and select the payments to be reviewed.

This is the first year in which CBP can produce a baseline measurement. CBP identified payments totaling $3.6 billion meeting the IPIA guidance for sample payment testing. Risk susceptible programs were identified for User Fee Accounts, Salaries and Expense, Automation Modernization, Custodial Activity and Other miscellaneous programs. Payments totaling $1.6 billion were selected from the User Fee Accounts, Salaries and Expense, Automation Modernization and Other programs and subjected to the detail review procedures. Improper payments totaling $22,613, or .001 percent, were identified. Estimates for future year improper payment percentages for these programs are expected to be consistent with the current year results. The results from the Custodial Activity program were incomplete.

Recovery Auditing

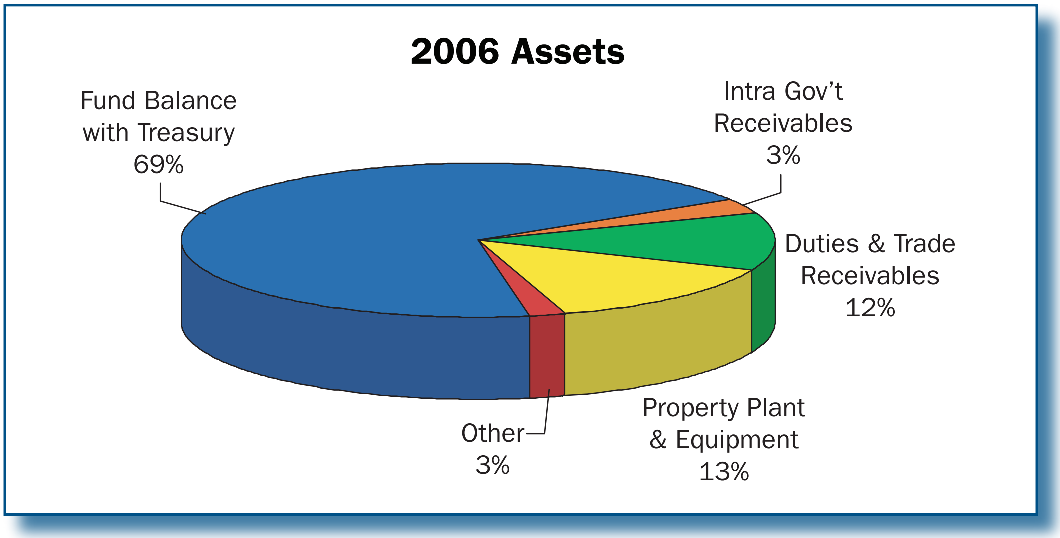
In fiscal year 2006, CBP provided fiscal year 2005 disbursement data to Horn and Associates for recovery audit contractual services. The fiscal year 2005 disbursement data was comprised of 30,430 transactions totaling over $881M. To date, no duplicate payments have been identified.

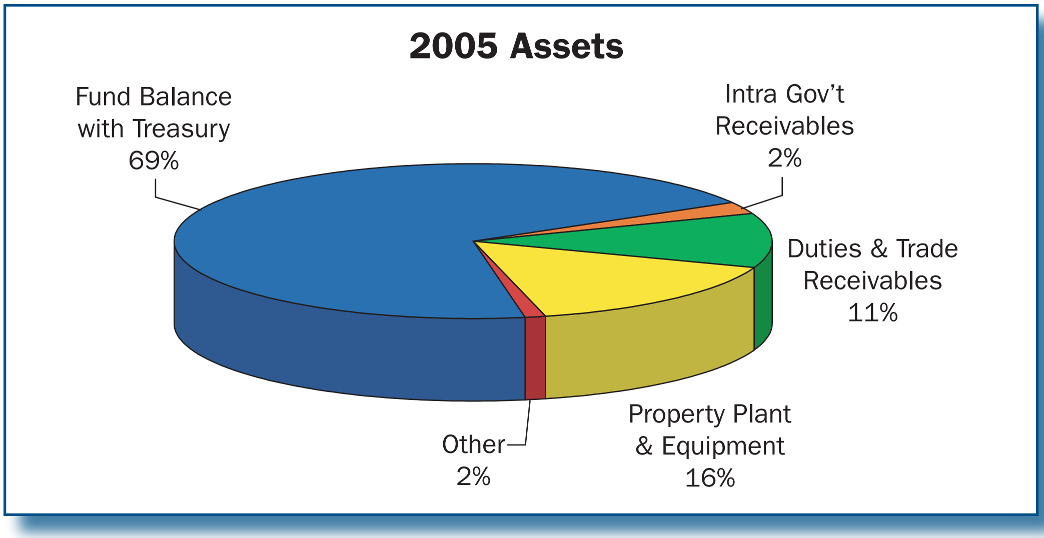
Overview of the Financial Statements

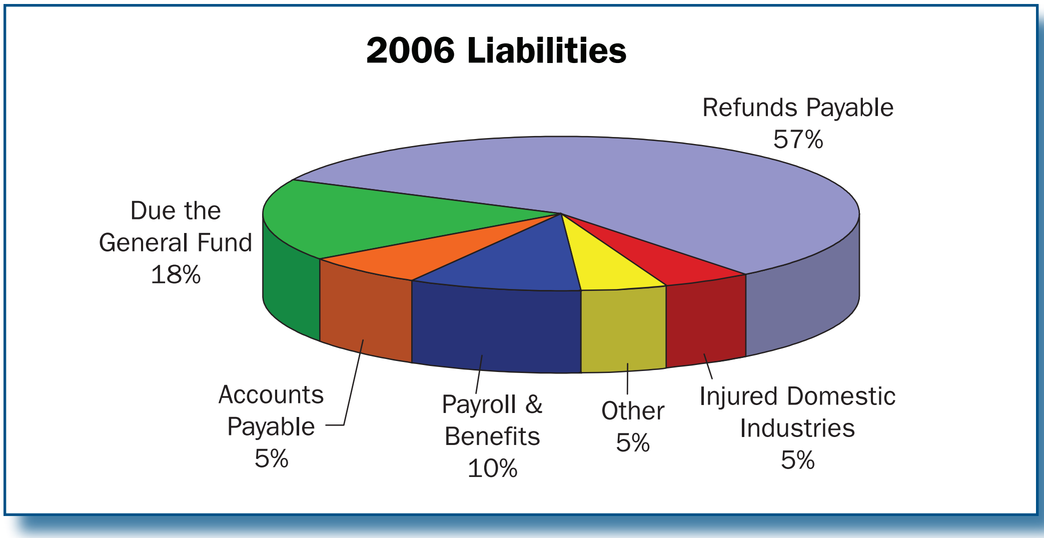
The financial statements and footnotes appear in the "Financial Section" of this report on pages 59 through 112. The financial statements have been audited by our independent auditor, KPMG LLP, and have been found to have no material misstatements as evidenced by the audit report.

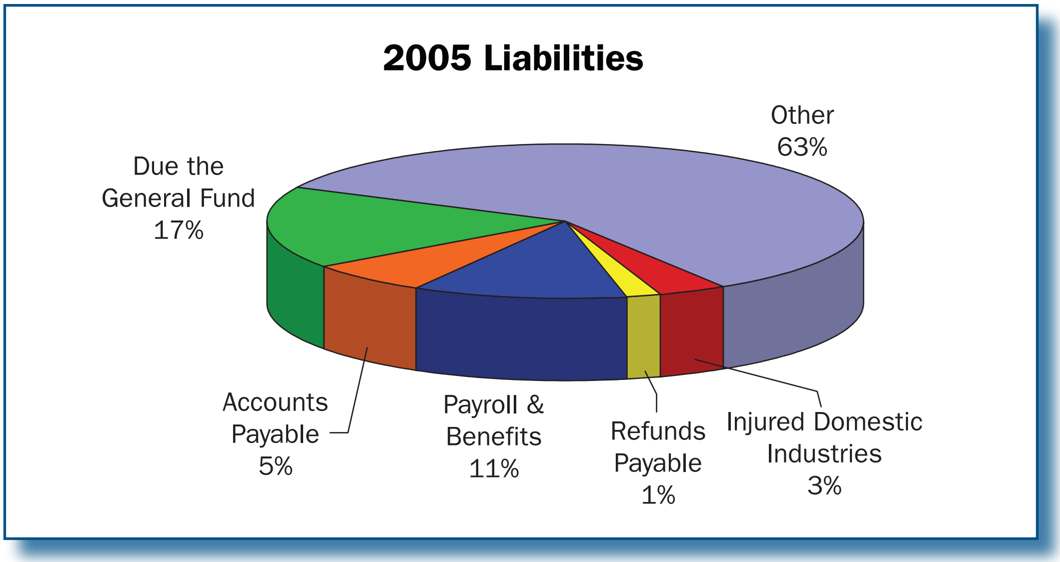
Consolidated Balance Sheet

The Consolidated Balance Sheet presents the property owned by CBP (assets), amounts owed by CBP (liabilities), and the amounts of the difference (net position). As of September 30, 2006, total assets were $14.9 billion, a 21 percent increase over fiscal year 2005 which was due to an increase in the Fund Balance with Treasury resulting from an increase in CBP's budget appropriations, Receivables Due from Treasury resulting from an increase in accrued non-entity liabilities, and Tax, Duties and Trade Receivables resulting from an increased use of periodic monthly payments by importers. As of September 30, 2006, total liabilities were $9.8 billion, an increase of 19 percent over fiscal year 2005, which was mostly due to an increase in Refunds Payable as a result of an agreement with Canada on softwood lumber imports of which $5.5 billion is expected to be refunded, an increase in the liability for Injured Domestic Industries due to an increase in collections and liquidations for antidumping and countervailing duties, and an increase in the liability Due to the General Fund due to an increase in non-entity collections and accrued receivables. The charts below present a comparison of the major categories of assets and liabilities as a percentage of the totals for FY 2006 and FY 2005.


2006 Assets
Fund Balance with Treasury 69%
Intra Gov't Receivables 3%
Duties & Trade Receivables 12%
Property Plant & Equipment 13%
Other 3%


2005 Assets
Fund Balance with Treasury 69%
Intra Gov't Receivables 2%
Duties & Trade Receivables 11%
Property Plant & Equipment 16%
Other 2%


2006 Liabilities
Refunds Payable 57%
Due the General Fund 18%
Accounts Payable 5%
Payroll & Benefits 10%
Other 5%
Injured Domestic Industries 5%



Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost presents the net cost of the major CBP programs as they relate to the goals of the 2005–2010 Strategic Plan. The gross cost less any offsetting revenue for each program equals net cost of operations. Net cost of operations was $7 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 net position. Appropriations used totaled $4.5 billion, representing 63 percent of CBP's total financing sources. CBP collected and retained $2.4 billion of Non-exchange revenue, comprising 33 percent, that 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 fiscal year 2006. CBP had $12.6 billion in budgetary resources, of which $2.3 billion was unobligated. CBP incurred obligations of $10.3 billion and recorded $9.4 billion in gross outlays by the end of the fiscal year.

Consolidated Statement of Financing

The Consolidated Statement of Financing reconciles total resources used to finance activities (budgetary spending) with the net cost of operations (the proprietary expenses of the agency). Budgetary spending for fiscal year 2006 was $6.7 billion.

Consolidated Statement of Custodial Activity

The Consolidated Statement of Custodial Activity presents non-entity revenue and refunds (revenue and refunds held by CBP but not available to it), using a modified cash basis. This method reports revenue from cash collection separately from receivable accruals, and cash disbursements are reported separately from payable accruals. The net collection of revenue for fiscal year 2006 was $23 billion.

Compliance Measurement

The Compliance Measurement Program collects objective statistical data to determine the compliance level of commercial imports with U.S. trade laws, regulations, and agreements, and it estimates the revenue gap. The revenue gap is a calculated estimate that measures potential loss of revenue owing to noncompliance with trade laws, regulations, and agreements using a statistically valid sample of the revenue losses and overpayments detected during Compliance Measurement entry summary reviews conducted throughout the year. For fiscal year 2005, the actual revenue gap was $470 million. CBP calculated the preliminary fiscal year 2006 revenue gap to be $314 million. The projected over-collection and under-collection amounts due to noncompliance were $128 million and $442 million in fiscal year 2006, respectively. The preliminary overall trade compliance rate for fiscal year 2006 is 96.6 percent. With overall compliance at a high level, CBP has been able to emphasize matters of significant trade risk.The final overall trade compliance rate and estimated revenue gap for fiscal year 2006 will be issued in January 2007.

Limitations of the Financial Statements

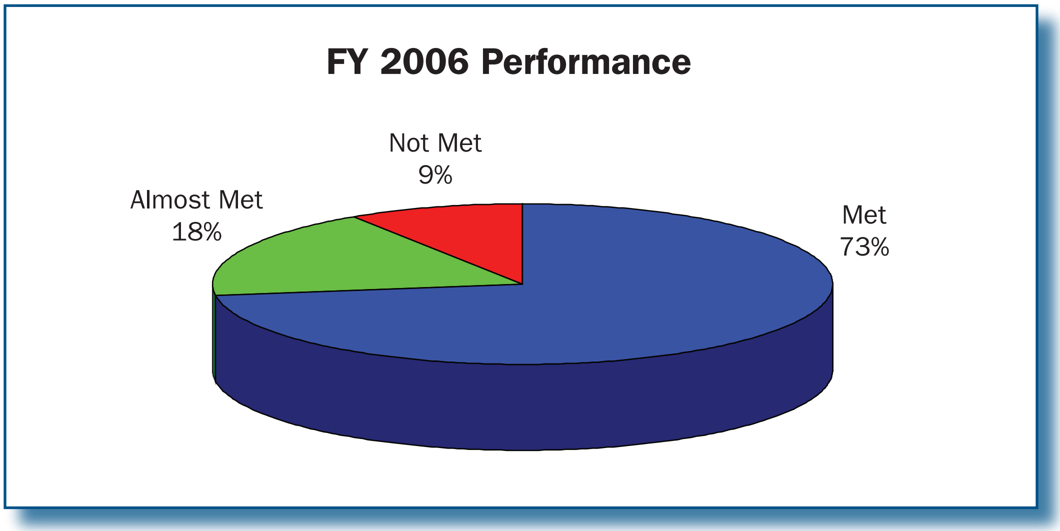
The principal financial statements have been prepared to report the financial position and results of the operations of CBP, pursuant to the requirements of 31 U.S.C. 3515(b). While the financial statements have been prepared from the books and records of CBP in accordance with Generally Accepted Accounting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

The financial statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity. Liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation by Congress, and payment of liabilities, other than for contracts, can be abrogated by the sovereign entity.

Performance Section

Performance Summary

The chart below highlights CBP's success in achieving fiscal year 2006 performance goals. The performance measures are established as an integral part of the CBP Strategic Plan and the DHS FYHSP. The measurement data are collected through various systems and methods and then entered into the FYHSP system for tracking and compiling for management decision-making and year-end reporting.



Security, threat, and risk analyses often necessitate changes in the agency's focus. CBP performance measures continue to evolve to better reflect operational functions and alignment with critical missions. For fiscal year 2006, CBP has 22 reportable performance measures that support the Strategic Plan. Of the 22 performance measures, 16 were met or exceeded, 4 were almost met (within 5 percent of target), and 2 were not met.

The performance data presented in this report are in accordance with the guidance provided by OMB. The data integrity discussion in the "Systems and Controls" section of the "Management's Discussion and Analysis" (page 41) describes CBP's commitment to providing quality and timely performance information to increase its value to CBP management and interested parties. CBP managers routinely use these data to improve the quality of program management and demonstrate accountability of program results.

Individual Performance Measure Results

This section describes CBP's fiscal year 2006 results for each FYHSP performance measure by the strategic goal and performance objective they support. Although some of the performance measures may relate to more than one performance objective, each performance measure was aligned under the single objective considered most relevant or meaningful. Discussions of the key performance measures can be found in the "Management's Discussion and Analysis" section under "Performance Goals and Results," beginning on page 26.

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

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

> ***Key Performance Measure***—Percentage of worldwide U.S.-destined containers processed through CSI ports. (See page 27 for results and detailed discussion.)

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

> ***Key Performance Measure***—Number of foreign mitigated examinations waived through the CSI. (See page 28 for results and detailed discussion.)

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

> ***Key Performance Measure***—Percent of active commissioned canine teams with 100 percent detection rate results in testing of the Canine Enforcement Team. (See page 28 for results and detailed discussion.)

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

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

> ***Key Performance Measure***—Border miles under control (including certain coastal sectors). (See page 29 for results and detailed discussion.)
>
> ***Performance Measure***—Apprehensions at checkpoints; effectiveness of checkpoint operations in apprehensions as they relate to border enforcement activities.

FY 2004 Actual: N/A FY 2005 Actual: N/A FY 2006 Target: 5%–10%
Actual FY 2006 Performance: 5.9%

Target Met

Border Patrol checkpoints are a vital part of the Border Patrol's layered enforcement strategy in that they provide an additional means of maximizing resources to increase the probability that those attempting to illegally enter the United States will be apprehended.

The checkpoints serve as a component of the successful “defense in depth” strategy, which deny major routes of egress to smugglers intent on delivering people, drugs, and other contraband into the interior of the United States.

Through the development and utilization of the Checkpoint Activity Report, more accurate information has been collected on checkpoint operations, ensuring they have a strategic focus based on current threat levels and national and sector priorities. Tucson Sector checkpoint apprehensions were an anomaly in fiscal year 2006, therefore, apprehensions for this sector were not included in the apprehension average. While checkpoint apprehensions remained consistently indicative of overall apprehensions nationwide in fiscal year 2005 (5.3 percent), apprehensions in Tucson decreased from 5.2 percent in fiscal year 2005 to 2.7 percent in fiscal year 2006 due to the enhanced level of operations in Arizona with Operation Jump Start and ABCI, as well as severe weather conditions affecting the Tucson area of operations.

Data Source: Summary records from Border Patrol sectors for checkpoint activity from fiscal year 2000 through 2006. Data are maintained in two databases: ENFORCE and BPETS.

Strategic Goal #3—Unifying as One Border Agency

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

> ***Key Performance Measure***—Total number of linked electronic sources from CBP and other government agencies for targeting information. (See page 30 for results and detailed discussion.)

Strategic Goal #4—Facilitating Legitimate Trade and Travel

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

> ***Key Performance Measure***—Percentage of internal population using the ACE functionality to manage trade information. (See page 31 for results and detailed discussion.)

> ***Key Performance Measure***—APIS data sufficiency rate. (See page 32 for results and detailed discussion.)

Performance Objective—Promote industry and foreign government partnership programs.

> ***Key Performance Measure***—Compliance rate for C-TPAT members with established C-TPAT security guidelines. (See page 32 for results and detailed discussion.)

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

Performance Measure—Percentage of air passengers compliant with laws, rules, and regulations.

FY 2004 Actual: 99.2% FY 2005 Actual: 99.0% FY 2006 Target: 99.2%
Actual FY 2006 Performance: 98.7%

Target Almost Met

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

The fiscal year 2006 air passenger compliance rate, while lower than statistically expected, is still very high by historical standards. CBP will use targeted enforcement, training, and public outreach programs to influence public awareness and increase voluntary compliance. CBP will maintain its current mix of enforcement programs and continue its emphasis on additional training.

Data Source: Treasury Enforcement Communication System, Categories I and II violations.

Performance Measure—Percentage of land border passengers compliant with laws, rules, and regulations.

FY 2004 Actual: 99.9% FY 2005 Actual: 99.9% FY 2006 Target: 99.9%
Actual FY 2006 Performance: 99.9%

Target Met

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

Data Source: Treasury Enforcement Communication System.

Performance Objective—Facilitate international trade and travel.

Key Performance Measure—Percentage of sea containers examined using NII technology. (See page 33 for results and detailed discussion.)

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

FY 2004 Actual: 26.6% FY 2005 Actual: 28.9% FY 2006 Target: 10.25%
Actual FY 2006 Performance: 32.80%

Target Met

This measure demonstrates improved operational efficiencies that facilitate international trade and travel while supporting effective enforcement. NII systems provide a quick, safe, and comprehensive method for screening truck and rail containers for WMD/Es and other contraband while facilitating legitimate cross-border traffic. The higher the percentage of cargo screened using NII, the greater the likelihood of detecting potentially hazardous materials and preventing them from entering the United States. This technology provides a more efficient and effective alternative to 100 percent physical inspection of all targeted high-risk containers.

Note: The fiscal year 2006 target for this measure was estimated based on previous calculations made during the 2006 budget planning process and subsequent issuance of the Fiscal Year 2006 President's Budget.

Data Source: Operations Management Reports Data Warehouse.

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

FY 2004 Actual: N/A FY 2005 Actual: 4.1 Times Less FY 2006 Target: 3.5 Times Less
Actual FY 2006 Performance: 3.4 Times Less

Target Almost Met

The average CBP exam reduction ratio for C-TPAT member importers compared with that of non–C-TPAT importers demonstrates how CBP facilitates trade transactions for known, certified C-TPAT companies compared with non–C-TPAT importers. The benefits of thorough validations are a reduction in exams that translate to time-savings and reduced cost for importers. Importers have continued to work diligently to cooperate with CBP in this review process.

During fiscal year 2006, CBP experienced some staffing limitations that have contributed to a slightly missed target. However, CBP remains committed to increasing the number of supply chain specialists and providing the necessary resources devoted to performing C-TPAT member validations.

Note: The fiscal year 2006 target for this measure was estimated based on previous calculations made during the 2006 budget planning process and subsequent issuance of the Fiscal Year 2006 President's Budget.

Data Source: CBP Automated Commercial System transaction data.

Strategic Goal #5—Protecting America and Its Citizens

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

Key Performance Measure—International air passengers in compliance with agricultural quarantine regulations (percentage compliant). (See page 34 for results and detailed discussion.)

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

FY 2004 Actual: 96.0% FY 2005 Actual: 93.7% FY 2006 Target: 94.6%
Actual FY 2006 Performance: 92.9%

Target Almost Met

This measure demonstrates the high level of compliance of land vehicle passengers with the regulations governing the types of agricultural products that can safely be brought into the United States. The information collected from agricultural inspections helps CBP estimate the percentage of compliance and yields a better understanding of the threat risk of agricultural pests and diseases entering the United States.

The goal for compliance of land border vehicle passengers with agricultural regulations for fiscal year 2006 was almost met. High-risk ports are not yet fully staffed with trained CBP agriculture specialists, although CBP is diligently working toward staffing existing vacancies. Analysis indicates that higher rates of interceptions occurred during shifts when CBP agriculture specialists were readily available. CBP will maintain its current mix of programs while continuing its emphasis on filling CBP agriculture specialist vacancies, with a priority given to high-risk ports, and providing additional specialized agriculture training to CBP officers.

Data Source: USDA Work Accomplishment Data System (WADS) Agricultural Quarantine Inspection monitoring activities. Compliance rates are calculated using random statistical sampling procedures.

Performance Measure—Number of thousands of pounds of cocaine seized at the POEs.

FY 2004 Actual: 44.6 FY 2005 Actual: 42.8 FY 2006 Target: 34.4
Actual FY 2006 Performance: 53.7

Target Met

Note: The fiscal year 2006 target for this measure was estimated based on previous calculations made during the 2006 budget planning process and subsequent issuance of the Fiscal Year 2006 President's Budget.

Data Source: Treasury Enforcement Communication System.

Performance Measure—Number of thousands of pounds of heroin seized at the POEs.

FY 2004 Actual: 2.8 FY 2005 Actual: 2.3 FY 2006 Target: 2.4
Actual FY 2006 Performance: 2.5

Target Met

Data Source: Treasury Enforcement Communication System.

Performance Measure—Number of thousands of pounds of marijuana seized at the POEs.

FY 2004 Actual: 653 FY 2005 Actual: 531.7 FY 2006 Target: 478
Actual FY 2006 Performance: 489.3

Target Met

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

Seizure targets are mathematically computed forecasts of what is likely to be achieved based on statistical analysis (regression analysis) using previous years' data and do not constitute operational targets. CBP does not control the amount of narcotics arriving at the ports, and seizures have always been irregular over the short term. When various smuggling trends are downward, as the trends have been in the recent past, the forecast will be downward.

Although it is difficult to quantify the impact of CBP enforcement actions as a deterrent over the past several years, our enforcement posture has increased substantially. The numbers of overall vehicle and cargo exams have increased dramatically. We have greatly increased the numbers and types of NII equipment for cargo and mail enforcement, all of which are very effective at detecting cocaine, heroin, and marijuana. CBP will continue to maximize resources applied to narcotics detection.

Note: The fiscal year 2006 target for this measure was estimated based on previous calculations made during the 2006 budget planning process and subsequent issuance of the Fiscal Year 2006 President's Budget.

Data Source: Treasury Enforcement Communication System.

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

Key Performance Measure—Percentage of no-launches to prevent acts of terrorism and other illegal activities arising from unlawful movement of people and goods across the borders of the United States. (See page 35 for results and detailed discussion.)

Strategic Goal #6—Modernizing and Managing

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

Key Performance Measure—Percent of trade accounts with access to ACE functionality to manage trade information. (See page 36 for results and detailed discussion.)

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

Key Performance Measure—Percentage of time the Treasury Enforcement Communication System is available to end-users. (See page 37 for results and detailed discussion.)

Financial Section

Message from the Chief Financial Officer

Today, more than ever, the mission of U.S. Customs and Border Protection (CBP) is critical to the protection of our loved ones and the entire Nation. There are few missions in the Federal Government that are more important. With this in mind, CBP must be equipped to face the future challenges in its operating environment. In the coming years, CBP will likely be impacted by changes in resources, leadership, the workforce, and new developments in technology. As an organization, we must continue to be proactive.

The Office of Finance (OF) has a significant role in achieving the CBP mission. As a mission support organization, OF is responsible for providing CBP with the resources and services necessary to carry out its mission. In order to support CBP through future challenges, OF is continuously striving for excellence in financial management. Within the OF Strategic Plan, we have identified four major strategic goals that will help improve the way we do business. First, by focusing on customer service and communication, we can strengthen our customer relationships and ensure that we are providing the right information for our customers to do their jobs. Secondly, we are streamlining our operations by documenting and reengineering our business processes. Thirdly, we are leveraging our technologies, which will strengthen our ability to provide the best financial management in the Federal Government. Finally, by implementing human capital initiatives, we are ensuring that we have the best personnel with the skills and knowledge necessary to succeed in their jobs.

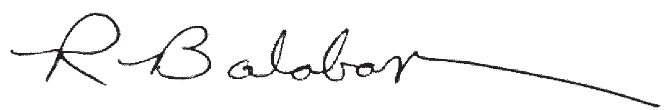
By working toward these goals, we will provide better financial management for CBP. Since initiating the OF Strategic Plan, we have already begun seeing improvements in financial management. In fiscal year 2006, CBP received an unqualified (clean) opinion on its financial statements. The unqualified opinion on our fiscal year 2006 financial statements strongly indicates that CBP continues to demonstrate discipline and accountability in the execution of our fiscal responsibilities as stewards of CBP programs.

We are in the process of correcting issues identified by internal management evaluations in support of CBP's Management Assurances as well as auditor-identified weaknesses in internal controls reported this year and can provide reasonable assurance that the objectives of Section 2 (Management Controls) and Section 4 (Financial Management Systems) of the Federal Managers' Financial Integrity Act have been achieved. CBP is committed to addressing all of our financial management challenges by implementing immediate measures toward corrective action to improve our oversight and accountability.

As part of CBP's continuing efforts to modernize its financial systems, an enterprise resource planning system solution, Systems, Applications, and Products (SAP) has been successfully implemented and is now beginning its third year of operation. SAP provides the tools for enhanced customer service and facilitates a shift in the role of finance from a transaction process/record-keeping function to a more analytical and integrated decision-making function. CBP utilizes SAP as an integrated solution for its asset management, procurement, finance, budget and reporting business processes.

CBP continues to provide oversight and direction for continued successful implementation of shared services and the development of any new shared service agreements to ensure that all programmatic support issues and problems are identified and resolved expeditiously. CBP led efforts to complete fiscal year 2006 tri-bureau agreements to promptly implement service delivery in the areas of human resources management, safety and health, fleet management, printing and graphics, forms management, construction, and facilities leasing. CBP developed procedures and set up roles in SAP to enable the efficient establishment and smooth operations of shared services for property and other business areas.

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



Richard L. Balaban
Chief Financial Officer

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

	2006	2005
ASSETS (Note 2)		
Intra-governmental		
Fund Balance with Treasury (Note 3)	$10,367,400	$ 8,545,942
Advances and Prepayments	174,523	62,514
Accounts Receivable (Note 5)	48,160	44,437
Other		
Receivables Due from Treasury – Refund and Drawback (Note 5)	412,427	143,848
Total Intra-governmental	11,002,510	8,796,741
Cash and Other Monetary Instruments (Note 4)	5,649	6,982
Accounts Receivable, Net (Note 5)	162,707	147,298
Tax, Duties and Trade Receivables, Net (Note 6)	1,754,622	1,400,073
Operating Materials and Supplies (Note 7)	67,166	53,749
Property, Plant and Equipment, Net (Note 9)	1,924,891	1,917,722
Other		
Advances and Prepayments	605	2,642
TOTAL ASSETS	$14,918,150	$12,325,207
LIABILITIES		
Intra-governmental		
Due to the Treasury General Fund	$ 1,799,521	$ 1,419,307
Accounts Payable	122,934	86,235
Other		
Accrued FECA Liability (Note 26)	118,226	160,280
Employee Benefits and Taxes	35,335	32,565
Advances from Others	7,970	4,045
Total Intra-governmental	$ 2,083,986	$ 1,702,432

(Continued)

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

	2006	2005
Accounts Payable	377,817	300,096
Accrued Payroll and Benefits (Note 10)	926,276	880,087
Environmental Liabilities (Note 11)	15,823	43,447
Other		
Refunds Payable (Note 12)	5,593,334	118,469
Advances from Others (Note 12)	199,254	4,812,831
Injured Domestic Industries (Note 12)	475,751	236,890
Software License Agreements (Note 13)	61,691	74,855
Legal Contingent Liabilities (Note 14)	62,196	61,727
TOTAL LIABILITIES	$ 9,796,128	$ 8,230,834
Commitment and Contingencies (Note 14)		
NET POSITION		
Unexpended Appropriations	2,971,412	2,070,402
Cumulative Results of Operations – Earmarked Funds (Note 15)	1,094,642	—
Cumulative Results of Operations – Other Funds	1,055,968	—
Total Cumulative Results of Operations	2,150,610	2,023,971
TOTAL NET POSITION	$ 5,122,022	$ 4,094,373
TOTAL LIABILITIES AND NET POSITION	$14,918,150	$12,325,207

The accompanying notes are an integral part of these statements.

Customs and Border Protection
Consolidated Statement of Net Cost
For the Year Ended September 30
(Dollars in Thousands)

	2006
Office of Field Operations Border Security Inspections and Trade Facilitation at Ports of Entry	
Gross Cost (Note 16)	$4,693,579
Less: Earned Revenue	195,216
Net Program Costs	$4,498,363
Border Security and Control Between Ports of Entry	
Gross Cost (Note 16)	$2,250,496
Less: Earned Revenue	93,603
Net Program Costs	$2,156,893
Air and Marine Operations	
Gross Cost (Note 16)	$ 350,887
Less: Earned Revenue	14,594
Net Program Costs	$ 336,293
Net Cost of Operations (Note 17)	$6,991,549

The accompanying notes are an integral part of these statements.

Customs and Border Protection
Consolidated Statement of Changes in Net Position
As of September 30
(Dollars in Thousands)

	FY 2006		
	Earmarked Funds	**All Other Funds**	**Consolidated Total**
Cumulative Results of Operations:			
Beginning Balances	$ 1,057,701	$ 966,270	$ 2,023,971
Budgetary Financing Sources:			
Appropriations Used	—	4,460,061	4,460,061
Non-exchange Revenue (Note 18)	2,367,316	5,289	2,372,605
Transfers in/out without Reimbursement (Note 18)	(1,469,510)	1,609,860	140,350
Other (Note 18)	—	(153,327)	(153,327)
Other Financing Sources:			
Donations and Forfeitures of Property	—	6,497	6,497
Transfers in/out without Reimbursement	49	40,879	40,928
Imputed Financing from Costs Absorbed by Others	—	251,074	251,074
Total Financing Sources	897,855	6,220,333	7,118,188
Net Cost of Operations	(860,914)	(6,130,635)	(6,991,549)
Net Change	36,941	89,698	126,639
Cumulative Results of Operations	$ 1,094,642	$ 1,055,968	$ 2,150,610
Unexpended Appropriations:			
Beginning Balance	$ —	$ 2,070,402	$ 2,070,402
Budgetary Financing Sources:			
Appropriations Received	—	5,440,771	5,440,771
Appropriations Transferred in/out	—	(15)	(15)
Other Adjustments	—	(79,685)	(79,685)
Appropriations Used	—	(4,460,061)	(4,460,061)
Total Budgetary Financing Sources	—	901,010	901,010
Unexpended Appropriations	—	2,971,412	2,971,412
Net Position	$ 1,094,642	$ 4,027,380	$ 5,122,022

The accompanying notes are an integral part of these statements.

Customs and Border Protection
Combined Statement of Budgetary Resources
For the Year Ended September 30
(Dollars in Thousands)

	2006
Budgetary Resources (Note 25)	
Unobligated Balances Brought Forward, October 1	$ 1,724,244
Recoveries of Prior Year Obligations	217,202
Budget Authority:	
Appropriations	9,253,801
Spending Authority from Offsetting Collections:	
Earned:	
Collected	1,290,526
Change in Receivable From Federal Sources	9,849
Change in Unfilled Customer Orders:	
Advance Received	1,400
Without Advance From Federal Sources	42,063
Expenditure Transfers From Trust Funds	3,000
Subtotal	10,600,639
Non-Expenditure Transfers from Trust Funds	243,863
Permanently Not Available	(162,676)
Total Budgetary Resources	$12,623,272
Status of Budgetary Resources	
Obligations Incurred:	
Direct (Note 19)	$ 9,032,372
Reimbursable (Note 19)	1,295,357
Total Obligations Incurred	10,327,729
Unobligated Balance:	
Apportioned	293,495
Exempt from Apportionment	328
Subtotal	293,823
Unobligated Balance Not Available	2,001,720
Total Status of Budgetary Resources	$12,623,272

(Continued)

Customs and Border Protection
Combined Statement of Budgetary Resources (continued)
For the Year Ended September 30
(Dollars in Thousands)

	2006
Change in Obligated Balances	
Obligated Balance, Net	
Unpaid Obligations Brought Forward, October 1	$ 2,397,626
Less: Uncollected Customer Payments from Federal Sources, Brought Forward from October 1	(323,029)
Total Unpaid Obligated Balance, Net	2,074,597
Obligations Incurred, Net	10,327,729
Less: Gross Outlays	(9,440,979)
Less: Recoveries of Prior Year Unpaid Obligations	(217,202)
Change In Uncollected Customer Payments From Federal Sources	(51,912)
Obligated Balance, Net End Of Period	
Unpaid Obligations	3,067,174
Less: Uncollected Customer Payments From Federal Sources	(374,941)
Total, Unpaid Obligated Balance, Net, End Of Period	2,692,233
Net Outlays	
Gross Outlays	9,440,979
Less: Offsetting Collections	(1,294,926)
Less: Distributed Offsetting Receipts	(2,347,944)
Net Outlays	$ 5,798,109

The accompanying notes are an integral part of these statements.

Customs and Border Protection
Consolidated Statement of Financing
For the Year Ended September 30
(Dollars in Thousands)

	2006
Resources Used to Finance Activities:	
Budgetary Resources Obligated	
Obligations Incurred	$10,327,729
Less: Spending Authority from Offsetting Collections and Recoveries	1,564,040
Obligations Net of Offsetting Collections and Recoveries	8,763,689
Less: Offsetting Receipts	2,347,944
Net Obligations	6,415,745
Other Resources	
Donations and Forfeiture of Property	6,497
Transfers in/out Without Reimbursement	40,928
Imputed Financing from Costs Absorbed by Others	251,074
Net Other Resources Used to Finance Activities	298,499
Total Resources Used to Finance Activities	$ 6,714,244
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	$ 577,971
Resources that Fund Expenses Recognized in Prior Periods	88,339
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations	
Other	(2,346,273)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	504,401
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations (Note 28)	1,247,955
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ 72,393
Total Resources Used to Finance the Net Cost of Operations	$ 6,641,851

(Continued)

Customs and Border Protection
Consolidated Statement of Financing (continued)
For the Year Ended September 30
(Dollars in Thousands)

	2006
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 (Note 10)	$ 21,099
Other	31,514
Total Components of Net Cost of Operations that will Require or Generate	$ 52,613
Components not Requiring or Generating Resources	
Depreciation and Amortization	$ 319,630
Revaluation of Assets or Liabilities	173
Other	(22,718)
Total Components of Net Cost of Operations that will not Require or Generate	$ 297,085
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	$ 349,698
Net Cost of Operations	$ 6,991,549

The accompanying notes are an integral part of these statements.

Customs and Border Protection
Consolidated Statement of Custodial Activity
For the Year Ended September 30
(Dollars in Thousands)

	2006
Revenue Activity:	
Sources of Cash Collections:	
Duties	$24,729,875
User Fees	1,241,961
Excise Taxes	2,426,725
Fines and Penalties	51,224
Interest	8,649
Miscellaneous	11,431
Total Cash Collections	28,469,865
Accrual Adjustments (+/-)	(5,371,096)
Total Custodial Revenue	$23,098,769
Transferred to Others:	
Treasury General Fund Accounts	$27,137,083
U.S. Department of Agriculture	126,608
Other Federal Agencies	16,661
Government of Puerto Rico	14,424
Government of the U.S. Virgin Islands	6,435
Refunds and Drawbacks	1,160,051
Non-federal Other	8,603
Change in Amounts Yet to be Transferred	(5,371,096)
Total Disposition of Custodial Revenue	23,098,769
Net Custodial Activity	$ —

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Reporting Entity

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

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

Basis of Accounting and Presentation

These financial statements have been prepared from CBP accounting records in conformity with generally accepted accounting principles (GAAP). GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which was designated the official accounting standard-setting body of the Federal Government by the American Institute of Certified Public Accountants. The statements consist of the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, the Consolidated Statement of Financing and the Consolidated Statement of Custodial Activity.

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that payment of liabilities other than for contracts can be abrogated by the sovereign entity.

These financial statements, with respect to the Consolidated Balance Sheet, the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position, are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. The Combined Statement of Budgetary Resources is reported using the budgetary basis of accounting. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. It generally differs from the accrual basis of accounting in that obligations are recognized when new orders are placed, contracts awarded and services received that will require payments during the same or future period. The Consolidated Statement of Financing reconciles differences between the budgetary and accrual bases of accounting. 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. In accordance with OMB Circular A-136, intra-CBP transactions and balances have been eliminated from all the amounts on the Consolidated Statement of Financing, except for obligations incurred and spending authority from offsetting collections and adjustments, which are presented on a combined basis.

Earmarked Funds

In 2006, CBP accounted for revenues and other financing sources for earmarked funds separately from other funds. This new method was adopted in accordance with the provisions of Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds,* which became effective October 1, 2005. This new standard amended SFFAS No. 7, *Revenue and Other Financing Sources,* by:

> Elaborating the special accountability needs associated with dedicated collections; separating dedicated collections into two categories, earmarked and fiduciary activity; and defining and providing accounting and reporting guidance for earmarked funds.

In accordance with SFFAS No. 27, CBP did not restate the prior period columns of the consolidated financial statements and related disclosures. See Note 15, Earmarked Funds, for specific required disclosures related to CBP's earmarked funds.

CBP has program management responsibility for the following earmarked funds:

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

Assets and Liabilities

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

Fund Balance with Treasury, Cash and Other Monetary Assets

Entity Fund Balance with Treasury are the amounts remaining as of September 30, 2006 and 2005 from which CBP is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law. Non-entity Fund Balance with Treasury represents funds available to pay refunds and drawback claims of duties, taxes, fees, and other non-entity amounts to be distributed to the Treasury General Fund and other Federal accounts in a future period.

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

Advances and Prepayments

Intra-governmental advances and prepayments consist of amounts paid to Federal agencies prior to CBP receipt of goods and services. Advances and prepayments to the public consist primarily of prepaid rent.

Accounts Receivable

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

Receivable Due From Treasury and Due to the Treasury General Fund

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

Tax, Duties and Trade Receivables

Accounts receivable consist of duties, user fees, fines and penalties, refunds and drawback overpayments, and interest associated with import/export activity, which have been established as a specifically identifiable, legally enforceable claim and remain uncollected as of year-end. These receivables are net of amounts deemed uncollectible which were determined by considering the debtor’s payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity. CBP's accounting policy for non-entity receivables is described in more detail in Note 6, Tax, Duties and Trade Receivables, Net.

Operating Materials and Supplies

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

Seized and Forfeited Property

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

Forfeited property is property for which the title has passed to the U.S. Government. As noted above, non-prohibited forfeited property or currency becomes assets of the Treasury Forfeiture Fund. However, prohibited forfeited items, such as counterfeit goods, narcotics, or firearms, are held by CBP until disposed or destroyed. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property,* analyses of changes in seized and forfeited property of prohibited items are disclosed in Note 8.

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.

Property, Plant and Equipment

CBP capitalized property, plant and equipment with an acquisition value of $5,000 or greater and a useful life of 2 years or greater if acquired prior to October 1, 1995. Beginning October 1, 1995, CBP capitalizes property, plant and equipment with an acquisition value of $50,000 or greater, and a useful life of 2 years or greater. The property, plant, and equipment assets acquired by CBP from the former Immigration and Naturalization Service as part of the formation of the Department of Homeland Security were capitalized if the acquisition value was $25,000 or greater. As of October 1, 2000, CBP implemented SFFAS No. 10, *Accounting for Internal Use Software.* SFFAS No. 10 requires the capitalization of all internal use software, including commercial off-the-shelf, contractor developed and internally developed software. As a result, CBP began capitalizing costs associated with the development of internal use software. In addition, CBP implemented the SFFAS No. 10 recommendation to apply capital lease accounting concepts to software license fee agreements that give CBP the "right to use" the software. Prior to October 1, 2000, costs relating to the development of internal use software and "right to use" license agreements were expensed.

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

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

Commercial/Travel Payable

A liability is recorded for an accounts payable accrual from commercial/travel activities. A portion of this liability is determined using a calculated estimate. This estimate is based on a ratio developed using historical subsequent disbursements and undelivered orders and applying the ratio to the undelivered orders as of September 30, 2006 and 2005.

Other Non-Entity Items in CBP Custody

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

Accrued Annual, Sick and Other Leave and Compensatory Time

Annual leave, compensatory time and other leave time are accrued when earned. The accrual is presented as a component of the payroll and benefits liability in the balance sheet and is adjusted for changes in compensation rates and reduced for annual leave taken. Sick leave is not accrued when earned, but is expensed when taken. For additional information see Note 10, Accrued Payroll and Benefits.

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

Most CBP employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS). CBP contributes 8.5 percent of base pay for regular employees, and 9 percent for law enforcement agents. Employees hired after December 31, 1983 are automatically covered by the Federal Employees' Retirement System (FERS) and Social Security. A primary feature of FERS is that it offers a savings plan to which CBP automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, CBP also contributes the employee's matching share for Social Security. For the FERS basic benefit CBP contributes 11.2 percent of base pay for regular employees and 23.8 percent for law enforcement agents. The pay base for determining CBP contributions to CSRS and FERS for inspectors and canine officers includes regular pay and up to a maximum of $17,500 in certain overtime earnings for FY 2006 and 2005. CBP recognizes the full costs of its employees' pension benefits; however, the liability associated with these costs is recognized by the Office of Personnel Management (OPM).

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

A liability for other post-employment benefits, which includes all types of benefits to former or inactive (but not retired) employees, their beneficiaries, and covered dependents, is also recognized. For additional information see Note 10, Accrued Payroll and Benefits.

Workers' Compensation

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

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

Unexpended Appropriations

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

Cumulative Results of Operations

Cumulative results of operations primarily represent the excess of user fee revenues over related expenses. It also reflects the net investment in property and equipment, operating materials and supplies held for use, and transfers in of equipment, materials and supplies from other Federal agencies without reimbursement. Also, included as a reduction in cumulative results of operations, are liabilities incurred, which will require funding from future appropriations, such as accumulated annual and other leave earned but not taken, accrued workers' compensation and contingent liabilities. The portion of cumulative results of operations attributable to earmarked funds is shown separately on both the Statement of Changes in Net Position and the Balance Sheet. For additional information see Note 15, 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 intra-governmental reimbursable activity are recognized as earned when the good or service is provided and reflect the full cost of the good or service 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 depreciated or amortized.

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

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

- Duties: amounts collected on imported goods.
- User fees: amounts designed to maintain U.S. harbors, and to defray the cost of other miscellaneous service programs.
- 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 is primarily identified when the import entry is liquidated, a process in which CBP makes final determination of duties, taxes, fees and interest owed on the 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 and 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 permanent, indefinite appropriations accounts used to fund the disbursement, is recorded as a decrease in the amount transferred to Treasury General Fund Accounts reported on the Statement of Custodial Activity.

An accrual adjustment is included to adjust cash collections and refund disbursements with the net increase or decrease of accrued Non-entity Accounts Receivables, net of uncollectible amounts and refunds payable.

CBP will also take into custody, without risk or expense, merchandise termed "general order property", which for various reasons cannot be legally entered into the U.S. commerce. CBP sole responsibility for the general order property is to ensure it does not enter the commerce of the United States. If general order property remains in CBP custody for a prescribed period of time, without payment of all estimated duties, storage and other charges, it 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 $9 million and $7 million for the years ended September 30, 2006 and 2005, respectively. Excess amounts returned to the Treasury General Fund average $1 million.

Use of Estimates

Management has made certain estimates and assumptions in the reporting of assets, liabilities and note disclosures in the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, the Consolidated Statement of Financing, the Consolidated Statement of Custodial Activity and accompanying notes. Actual results could differ from these estimates. Significant estimates include: year-end accruals of accounts payable, contingent legal and environmental liabilities, accrued workers' compensation, allowance for doubtful accounts receivable, retirement and post-retirement benefits assumptions and certain non-entity receivables and payables related to custodial activities.

Taxes

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

Reclassifications

Certain FY 2005 balances have been reclassified, re-titled, or combined with other financial statement line items for consistency with current year presentation.

2. Non-Entity Assets

Non-entity assets as of September 30, 2006 and 2005, consist of the following (in thousands):

	2006	2005
Intra-governmental		
Fund Balance with Treasury (Note 3)	$ 5,944,570	$ 5,062,751
Receivables Due from Treasury (Note 5)	412,427	143,848
Total Intra-governmental	6,356,997	5,206,599
Public		
Tax, Duties and Trade Receivables, Net (Note 6)	1,754,622	1,400,073
Cash and Other Monetary Instruments (Note 4)	5,305	6,350
Property, Plant and Equipment, Net	2,628	6,156
Total Public	1,762,555	1,412,579
Total Non-Entity Assets	8,119,552	6,619,178
Total Entity Assets	6,798,598	5,706,029
Total Assets	$14,918,150	$12,325,207

Non-entity Fund Balance with Treasury as of September 30, 2006 and 2005 includes approximately $5.2 billion and $4.6 billion (in deposit fund) in duties collected by CBP for unliquidated anti-dumping/countervailing duties and $566 million and $316.4 million (in special fund) for Injured Domestic Industries as of September 30, 2006 and 2005, respectively. These assets offset accrued liabilities as of September 30, 2006 and 2005.

Non-entity Fund Balance with Treasury consists of special and deposit funds, permanent appropriations, and miscellaneous receipts that are available to pay non-entity liabilities. Non-entity Receivables Due from Treasury represent an estimate of duty, tax, and/or fee refunds and drawbacks that will be reimbursed by a permanent and indefinite appropriation account. Duties and taxes receivable from the public represent amounts due from importers for goods and merchandise imported to the United States and, upon collection, will be available to pay the accrued intra-governmental liability Due to the Treasury General Fund, which equaled $1.8 billion and $1.4 billion as of September 30, 2006 and 2005.

3. Fund Balance with Treasury

Fund Balance with Treasury as of September 30, 2006 and 2005 consists of the following (in thousands):

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

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

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

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

Special funds are receipt funds 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, 2006 and 2005, CBP User Fees Account contained approximately $761.1 million and $740.5 million, respectively; CBP Services at Small Airports account contained approximately $8 million and $5 million, respectively; and the Refunds, Transfers and Expenses of Operation of Puerto Rico account contained approximately $31.8 million and $27.4 million respectively. CBP also has entity special funds for immigration user fees of $192.8 million and $179.4 million, land border inspection fees of $6.2 million and $8.4 million, and immigration enforcement account of $1.1 million and $7.8 million as of September 30, 2006 and 2005, respectively. Non-entity fund balance includes monies received in connection with antidumping and countervailing duty orders and findings to qualifying Injured Domestic Industries of $566 million and $316.4 million as of September 30, 2006 and 2005, respectively.

The entity deposit fund balance represents amounts received as an advance that are not accompanied by an order. Once the order is received the deposit fund balance is decreased. Deposit funds represent amounts received as an advance that are not accompanied by an order and include non-entity collections. For the fiscal year ending September 30, 2005, the majority of the deposit fund balance was for unliquidated antidumping and countervailing duties collected by CBP, mostly Canadian softwood lumber imports. For the fiscal year ending September 30, 2006, CBP reported a $5.5 billion refund payable for Canadian softwood lumber imports.

Status of Fund Balance with Treasury as of September 30, 2006 and 2005 consists of the following (in thousands):

2006	Entity	Non-Entity	Totals
Unobligated Balance Available	$ 293,823	$5,944,570	$ 6,238,393
Unobligated Balance Unavailable	749,160	—	749,160
Obligated Balance not yet Disbursed	2,693,415	—	2,693,415
Restricted Unobligated Funds	686,432	—	686,432
Totals	$4,422,830	$5,944,570	$10,367,400

2005	Entity	Non-Entity	Totals
Unobligated Balance Available	$ 202,924	$5,062,751	$ 5,265,675
Unobligated Balance Unavailable	557,069	—	557,069
Obligated Balance not yet Disbursed	2,075,067	—	2,075,067
Restricted Unobligated Funds	648,131	—	648,131
Totals	$3,483,191	$5,062,751	$ 8,545,942

Amounts reported as Unobligated Balance Unavailable and Obligated Balance not yet Disbursed will not match amounts reported on the Statement of Budgetary Resources due to CBP reporting all Non-entity Fund Balance with Treasury amounts as Unobligated Balance Available. Portions of the Unobligated Balance Available, Unobligated Balance Unavailable and Obligated Balance not yet Disbursed contain CBP's user fees account balance of $640 million as of September 30, 2006 and 2005, which is restricted by law in its use to offset specific costs incurred by CBP until made available as provided in Appropriation Acts.

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

The Obligated Balance not yet Disbursed represents amounts designated for payment of goods or services ordered but not received or goods and services received but for which payment has not yet been made.

CBP returned to Treasury $83 million and $23.4 million for indefinite no-year authority and $1.9 million in authority for obligations pursuant to public law during both the years ending September 30, 2006 and 2005.

In accordance with Public Law 101-510, CBP is required to automatically cancel obligated and unobligated balances of appropriated funds five years after a fund expires. Obligations that have not been paid at the time an appropriation is canceled may be paid from an unexpired appropriation that is available for the same general purpose. As of September 30, 2006, CBP canceled $20.2 million from FY 2002 annual appropriations, of which $14.4 million was deobligated. As of September 30, 2005, CBP canceled $11.1 million from FY 2001 annual appropriations, of which $8.9 million was deobligated. Based on historical activity CBP estimates obligations related to canceled appropriations that will be paid from future appropriations, would not exceed $1 million in any fiscal year.

4. Cash and Other Monetary Instruments

Cash and Other Monetary Instruments as of September 30, 2006 and 2005, consist of the following (in thousands):

2006	Entity	Non-Entity	Totals
Imprest Funds	$118	$ —	$ 118
Undeposited Collections	226	4,945	5,171
Monetary Instruments	—	360	360
Totals	$344	$5,305	$5,649

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

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

5. Accounts Receivable

Intra-governmental Accounts Receivable

Accounts receivable due from other Federal agencies, as of September 30, 2006 and 2005, total $48.2 million and $44.4 million, and are considered fully collectible.

Accounts Receivables, Net

Receivables from reimbursable services are recognized for work or services provided to a private party. By law, collections of these receivables can be credited to the appropriation accounts from which the related costs were paid. As of September 30, 2006 and 2005, reimbursable service receivables total $3 million and $18 million, and are considered fully collectible.

Title 19 of the United States Code, chapter 1, section 58c, authorizes CBP, formerly known as the United States Customs Service, to collect user fees for services provided in connection with the processing of commercial air and commercial vessel passengers, 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. As of September 30, 2006 and 2005, the Customs user fee receivables total $72 million and $69 million, respectively, and are net of uncollectible amounts totaling $2 million and $3 million.

Title 8 of the United States Code, chapter 12, subchapter II, part IX, section 1356 authorizes CBP, formerly known as the Immigration and Naturalization Service, to collect immigration user fees for inspection or pre-inspection of passengers arriving at a port of entry in the United States (as defined in Title 8, chapter 12, subchapter I, section 1101) aboard a commercial aircraft and commercial vessel (some exceptions apply). Receivables accrue for commercial airline and commercial vessel user fees on a quarterly basis. Payment is due at any time within thirty-one days after the quarter in which the fees are collected, except the July and August fees collected from airline passengers shall be made ten days before the end of the fiscal year. The first quarter payment shall include any collections made in the preceding quarter that were not remitted with the previous payment. As of September 30, 2006 and 2005, the Immigration user fee receivables totals $88 million and $60 million, respectively, and are net of uncollectible amounts totaling $13 million and $14 million.

Receivables Due from Treasury – Refund and Drawback

Non-entity Receivables Due from Treasury represent an estimate of duty, tax and/or fee refunds and drawbacks that will be reimbursed by a permanent and indefinite appropriation account and will be used to pay estimated duty refunds and drawbacks of $412.4 million and $143.8 million, as of September 30, 2006 and 2005, respectively.

6. Tax, Duties and Trade Receivables, Net

Receivables as of September 30, 2006 and 2005, are as follows (in thousands):

	2006		
Receivable Category	Gross Receivable	Amounts Uncollectible	Total Net Receivables
Duties	$1,553,714	$ (117,932)	$1,435,782
Excise Taxes	99,178	(5,630)	93,548
User fees	120,041	(12,864)	107,177
Fines/penalties	1,120,769	(1,071,114)	49,655
Interest	164,589	(156,361)	8,228
Anti-Dumping/ Countervailing Duties	260,929	(200,777)	60,152
Refunds and drawback	2,077	(1,997)	80
Totals	$3,321,297	$(1,566,675)	$1,754,622

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

CBP assesses duties, taxes and fees on goods and merchandise brought into the United States from foreign countries. At the time importers bring merchandise into the United States, they are required to file CBP entry documents. Generally, within 10 working days after CBP releases the merchandise into the U.S. commerce, the importer is to submit an entry document with payment of estimated duties, taxes and fees. In FY 2004, CBP began implementing periodic monthly payment that requires payment of estimated duties, taxes and fees on the 15th day of the month following release. A receivable of $1.6 billion and $1.2 billion was recorded for 844,069 entries and 721,470 entries for merchandise released into commerce on or before September 30, 2006 and 2005, respectively, of which $769 million and $284 million related to importers using the periodic monthly payment. There were an additional 4,541 entries and 4,370 entries for merchandise released into commerce on or before September 30, 2006 and 2005, respectively, for which a receivable amount could not be determined because the entry summary documentation describing the type, quantity, and value of the merchandise had not been received from the importers. It is CBP policy to track and demand payment of unpaid estimated duties, taxes and fees receivable amounts by establishing a liquidated damage case which generally results in a fines and penalty type receivable.

A fine or penalty is established when a violation of import/export law is discovered. CBP assesses a liquidated damage or penalty for these cases to the maximum extent of the law. After receiving the notice of assessment the importer or surety has 60 days to either file a petition requesting a review of the assessment or make payment of the assessed amount. If a petition is received and CBP finds there are extenuating circumstances, such as an incorrect assessment, which warrants mitigation, relief is granted as prescribed by CBP mitigation guidelines and directives. Until this process has been completed, CBP records an allowance on fines and penalties of approximately 95.75 percent of the total assessment based on historical experience of fines and penalties mitigation and collection. Duties and taxes receivable are non-entity assets for which there is an offsetting liability due to the Treasury General Fund.

7. Operating Materials and Supplies

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

Operating Materials and Supplies as of September 30, 2006 and 2005 consist of the following (in thousands):

	2006	2005
Aircraft	$63,350	$49,658
Vessels	3,816	4,091
Totals	$67,166	$53,749

8. Seized and Forfeited Property

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

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

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

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

Analysis of Changes in Prohibited (Non-Valued) Seized Property, September 30, 2005

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

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

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

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

Analysis of Changes in Prohibited (Non-Valued) Forfeited Property, September 30, 2005

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

9. Property, Plant and Equipment, Net

Property, Plant and Equipment as of September 30, 2006 and 2005 consist of the following (in thousands):

	2006			
Categories	**Useful Life (in years)**	**Acquisition Cost**	**Accumulated Depreciation/ Amortization**	**Net Book Value**
Land and Land Rights	N/A	$ 27,690	$ —	$ 27,690
Improvements to Land	6–40	28,115	(17,268)	10,847
Construction in Progress	N/A	257,802	—	257,802
Buildings, Other Structures and Facilities (a)	6–40	512,450	(95,519)	416,931
Equipment:				
ADP Equipment	5	237,000	(127,939)	109,061
Aircraft	12–20	749,566	(451,721)	297,845
Vessels	5–30	22,392	(12,072)	10,320
Vehicles	3–8	348,871	(268,022)	80,849
Other Equipment	5–15	589,536	(289,395)	300,141
Assets Under Capital Lease	2–10	10,279	(10,162)	117
Leasehold Improvements	2–30	206,690	(62,736)	143,954
Internal Use Software	5	575,045	(346,698)	228,347
Internal Use Software-in Development	N/A	40,987	—	40,987
Totals		$3,606,423	$(1,681,532)	$1,924,891

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

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

In FY06 CBP conducted an inventory of owned real property and validated the status of construction in progress assets. These efforts resulted in the addition of several capitalized real property assets, significant reclassifications from CBP's construction in progress accounts to completed assets on the balance sheet, and revaluation of assets related to prior year depreciation.

10. Accrued Payroll and Benefits

The payroll and benefits liability as of September 30, 2006 and 2005 consists of the following (in thousands):

	2006	2005
Accrued Funded Payroll and Benefits	$141,839	$137,253
Accrued Unfunded Leave	227,692	206,593
Actuarial FECA Liability	556,745	536,241
Total	$926,276	$880,087

Claims incurred for the benefit of CBP employees under FECA are administered by DOL and are ultimately paid by CBP. Future workers' compensation estimates, generated from an application of actuarial procedures developed by the DOL as of September 30, 2006 and 2005, was $556.7 million and $536.2 million, respectively.

11. Environmental Liabilities

CBP is responsible to remediate its sites with environmental contamination. The major Federal laws covering environmental response, cleanup and monitoring are the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act and the Toxic Substances Control Act. The unrecognized amounts of environmental liabilities for assets that require the systematic recognition of the total estimated cleanup costs is applicable to PP&E placed in service after October 1, 1997. CBP's environmental cleanup liability as of September 30, 2006 and 2005 was $15.8 million and $43.4 million, respectively. The liability consists of underground fuel storage tanks (UST), occupied buildings containing friable asbestos material and firing ranges. The reduction in CBP's environmental liability is due to counsel's determination that CBP is not liable for environmental cleanup of leased firing ranges.

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

12. Other Liabilities

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. The September 30, 2006 and 2005, accrued liability consists of the following (in thousands):

	2006	2005
Refunds	$5,556,292	$ 91,659
Drawback claims	37,042	26,810
Total	$5,593,334	$118,469

CBP accrues a liability for refunds and drawback claims approved at year-end, but paid subsequent to year-end. Payments made to importers/exporters are primarily identified when the import entry is liquidated, a process in which CBP makes a final determination of duties, taxes and fees owed on the entry. Due to non-liquidation of the entries, the amount to be refunded is undetermined. Therefore, a historical calculated average was used to determine a ratio for estimating the receivable and payable to be recorded. Using this average, CBP has estimated $9.8 million and $9.2 million as of September 30, 2006 and 2005, respectively, as a payable.

During FY 2006, an agreement was reached for Canadian softwood lumber imports. Refunds are expected to be paid in FY 2007. The monies relating to Canadian softwood lumber was reported as Advances from Others in FY 2005. For the fiscal year ending September 30, 2006, CBP reported a $5.5 billion refund payable for Canadian softwood lumber imports.

Advances from Others

Advances from others included $199 million and $4.8 billion of unliquidated anti-dumping/countervailing duties as of September 30, 2006 and 2005, respectively.

Injured Domestic Industries

The Continued Dumping and Subsidy Offset Act of 2000, P.L. 106-387, Title X, enacted in FY 2001 calls for CBP to disburse monies received in connection with antidumping and countervailing (AD/CV) duty orders and findings to qualifying injured domestic industries. During FY 2006 and 2005, CBP liquidated $475.8 million and $236.9 million, respectively in AD/CV duty and recorded the liability.

13. Leases

Operating Leases

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

As of September 30, 2006 and 2005, there were no future minimum lease commitments under non-cancelable operating leases for equipment.

Software License Agreements

CBP has a number of software license fee agreements primarily involving mainframe software licenses. The liabilities associated with these software license agreements are reflected on the accompanying balance sheet based upon the present value of the future minimum license agreement payments. As of September 30, 2006, the aggregate capitalized cost of the agreements still subject to lease is $152.2 million. These agreements are included in the capitalized software.

(in thousands:)

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

Summary of Assets Acquired through Capital Lease:	2005 Acquisition Cost	2005 Accumulated Depreciation	2005 Net Book Value
Personal Property (machinery & equipment)	$164,363	$(75,638)	$88,725
Total	$164,363	$(75,638)	$88,725

Future minimum payments for cancelable commercial off-the-shelf license agreements and the present value of the minimum license agreement payments as of September 30, 2006, is as follows (in thousands):

FY	2006
2007	$17,981
2008	17,981
2009	17,981
2010	17,982
2011	—
Beyond 2011	—
Total future minimum license	71,925
Less: Imputed interest	(10,234)
Total net present value of software license agreements	$61,691

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

14. Contingent Liabilities and Other Commitments

Legal Contingent Liabilities

The estimated contingent liabilities for all probable and estimable litigation related claims as of September 30, 2006 and 2005 was $62.2 million and $61.7 million, respectively. Of these amounts, $47.4 and $25.8 million as of September 30, 2006 and 2005 is funded from appropriations for the Refund and Drawback Account. Asserted and pending legal claims for which loss is reasonably possible was estimated at $64 million and $317.3 million, as of September 30, 2006 and 2005.

CBP is party to various administrative proceedings, legal actions, and claims brought by or against it. Any financially unfavorable administrative or court decision will normally be funded from either: (1) CBP appropriation for refunds and drawback for trade litigation issues; (2) various claims and judgment funds maintained by Treasury; or (3) CBP salary and expense appropriation.

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, 2006 and 2005 have been recorded.

Loaned Aircraft

CBP is generally liable to the Department of Defense for damage or loss to aircraft on loan. CBP had 16 aircraft loaned from Department of Defense with an acquisition value of $94.4 million, as of September 30, 2006 and 2005.

15. Earmarked Funds

COBRA fees, appropriation 70X5695, are legislatively set as are the restrictions on the use of collections. Based on the statute, fee collections may be used to pay for inspectional overtime, excess pre-clearance costs, the hiring of inspectional personnel, purchasing of equipment, foreign language proficiency awards, and payment of related expenses using surplus monies available after overtime and pre-clearance costs are satisfied.

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

The following table presents condensed data relating to CBP's earmarked funds (disclosed in note 1) as of and for the year ended September 30, 2006 (in thousands):

	2006			
Balance Sheet	**70X5695**	**70X5087**	**All Others**	**Total**
Assets				
Fund Balance with Treasury	$ 761,175	$ 192,814	$ 15,439	$ 969,428
Tax, Duties and Trade Receivables, Net	61,117	-	110	61,227
Other Assets	72,410	87,637	343	160,390
Total Assets	$ 894,702	$ 280,451	$ 15,892	$ 1,191,045
Liabilities and Net Position				
Other Liabilities	95,952	14	437	96,403
Unexpended Appropriations	—	—	—	—
Cumulative Results of Operations	798,750	280,437	15,455	1,094,642
Total Liabilities and Net Position	$ 894,702	$ 280,451	$ 15,892	$ 1,191,045
Statement of Net Cost				
Gross Cost	$ 336,845	$ 480,011	$ 45,728	$ 862,584
Less Earned Revenue	—	—	(1,670)	(1,670)
Net Cost of Operations	$ 336,845	$ 480,011	$ 44,058	$ 860,914
Statement of Change in Net Position				
Net Position Beginning of Period	$ 797,236	$ 239,091	$ 21,374	$ 1,057,701
Net Costs of Operations	(336,845)	(480,011)	(44,058)	(860,914)
Taxes and Other Non Exchange Revenue	1,704,342	624,884	38,090	2,367,316
Net Transfers In/Out	(1,365,983)	(103,527)	49	(1,469,461)
Change in Net Position	1,514	41,346	(5,919)	36,941
Net Position End of Period	$ 798,750	$ 280,437	$ 15,455	$ 1,094,642

Consolidated Omnibus Budget Reconciliation (COBRA), Appropriation 70X5695

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

Canada and Mexico, was added later that year. The collection of the COBRA fees for CBP services began on July 7, 1986.

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

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

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

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

Immigration User Fees, Appropriation 70X5087

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

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

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

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

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

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 Department of Homeland Security, legacy INS border functions transferred to CBP, while its interior enforcement activities fell to Immigration and Customs Enforcement (ICE). CBP collects the fees and shares the revenue from the immigration user fees based on a memorandum of understanding between CBP and ICE. CBP maintains 82.63% of the user fee, while 17.37% is provided to ICE. CBP retains 100% of the administrative carrier fines collected.

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

16. Intra-governmental Costs and Exchange Revenue

Intra-governmental 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). Intra-governmental exchange revenue is disclosed separately from exchange revenue with the public. The criteria used for this classification requires that the intra-governmental expenses relate to the source of goods and services purchased by the reporting entity and not to the classification of related revenue. With “intra-governmental 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 “intra-governmental.” The purpose of this classification is to enable the Federal government to provide consolidated financial statements, and not to match public and intra-governmental revenue with costs that are incurred to produce public and intra-governmental revenue.

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

	2006
Border Security Inspections and Trade Facilitation at Ports of Entry	
Intra-governmental costs	$1,252,679
Public costs	3,440,900
Total Border Security Inspections and Trade Facilitation at Ports of Entry Costs	**4,693,579**
Intra-governmental earned revenue	(127,161)
Public earned revenue	(68,055)
Total Border Security Inspections and Trade Facilitation at Ports of Entry Revenue	**(195,216)**
Border Security and Control Between Ports of Entry	
Intra-governmental costs	600,639
Public costs	1,649,857
Total Border Security and Control Between Ports of Entry Costs	**2,250,496**
Intra-governmental earned revenue	(60,972)
Public earned revenue	(32,631)
Total Border Security and Control Between Ports of Entry Revenue	**(93,603)**
Air and Marine Operations	
Intra-governmental costs	93,649
Public costs	257,238
Total Air and Marine Operations Costs	**350,887**
Intra-governmental earned revenue	(9,506)
Public earned revenue	(5,088)
Total Air and Marine Operations Revenue	**(14,594)**
Net Cost of Operations	**$6,991,549**

17. Sub-organization Program Costs/Program Costs by Segment

CBP is the unified border agency whose priority mission is the prevention of terrorism and terrorist weapons from entering the U.S. CBP meets these responsibilities by: (1) enforcing the laws governing the flow of merchandise or commerce across the borders of the U.S., (2) assessing and collecting duties, taxes and fees on imported and other goods and services, and (3) enforcing drug-related and other laws and regulations of the U.S. on behalf of Federal agencies and/or in conjunction with various state, local and other Federal agencies and foreign countries.

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

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

Notes to Schedule:

Note a:

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

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

Air Traffic Security Cost

Travel Facilitation

Seaport Security Cost

Trade Rules Compliance

Note b:

Enforcement

- Patrol
- Transportation

Development and Implementation of the Secure Border Initiative

Note c:

Interdiction

General Investigative Activities

- Intelligence
- Smuggling

18. Net Position

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. The amount reported as Other is the net effect of CBP's revaluation of property, plant and equipment.

19. Apportionment Categories of Obligations Incurred

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

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

20. Borrowing Authority

CBP did not have any borrowing or contract authority and did not have any repayment requirements, financing sources for repayments or any other terms of borrowing authority used.

21. Permanent Indefinite Appropriations

Permanent indefinite appropriations refer to the appropriations that result from permanent public laws, which authorize CBP to retain certain receipts. The amount appropriated depends upon the amount of the receipts rather than on a specific amount. CBP has a permanent and indefinite appropriation, which is used to disburse tax and duty refunds and duty drawbacks. Although funded through appropriations, refund and drawback activity is, in most instances, reported as a custodial activity. Refunds are custodial revenue-related activity in that refunds are a direct result of importer overpayments of their duties, taxes and fees. Federal tax revenue received from taxpayers is not available for use in the operation of CBP and is not reported on the Consolidated Statement of Net Cost. Likewise, the refunds of overpayments are not available for use by CBP in its operations. Refunds and drawback disbursements totaled $1.16 billion for fiscal year ended September 30, 2006, and are presented as a use of custodial revenue on the Consolidated Statement of Custodial Activity.

This appropriation is not subject to budgetary ceilings established by Congress. CBP's refunds payable at year-end are not subject to funding restrictions. Refund payment funding is recognized as appropriations are used.

22. Legal Arrangements Affecting the Use of Unobligated Balances of Budget Authority

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

Included in the cumulative results of operations for special funds is $1.1 billion at September 30, 2006, that represents CBP's authority to assess and collect user fees relating to merchandise and passenger processing, to assess and collect fees associated with the services performed at certain small airports or other facilities, retain amounts needed to offset costs associated with collecting duties, and taxes and fees for the government of Puerto Rico. These special fund balances are restricted by law and in their use to offset specific costs incurred by CBP. Part of the passenger fees in the User Fees Account, totaling approximately $761 million is restricted by law in its use to offset specific costs incurred by CBP and are available to the extent provided in Department Appropriations Acts.

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

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

The table below documents the material differences between the FY 2005 Statement of Budgetary Resources and the actual amounts reported for FY 2005 in the Budget of the United States Government. Since the FY 2006 financial statements are reported prior to the Budget of the United States Government, Customs and Border Protection is reporting for FY 2005 only. Typically, the Budget of the

United States Government with the FY 2006 actual data is published in February of the subsequent year. Once published, the FY 2006 actual data will be available at OMB website, www.whitehouse.gov/omb. (in thousands:)

2005	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$10,879,092	$9,152,015	$ —	$5,339,586
Differences:				
Expired Appropriation not included in President's Budget	(160,418)	(83,572)	—	—
Refunds & Drawbacks not included in President's Budget	(821,577)	(821,577)	—	819,689
Injured Domestic Industries not included in President's Budget (20X5688)	(612,591)	(296,163)	—	296,163
Unclaimed & Abandoned Goods Budgetary Resources not included in the President's Budget (70X8789)	(7,568)	—	—	—
President's Budget did not include non-Expenditure transfers out to ICE ($88.4 Million) and CIS ($2.2 million) (70X0503)	90,672	—	—	—
Rounding: $950,000 more reported on the President's Budget than on the SBR (705/60530)	950	—	—	—
Miscellaneous	3,440	1,000	—	(8,000)
Total Differences	(1,507,092)	(1,200,312)	—	1,107,852
Budget of the US Government	$ 9,372,000	$7,951,703	$ —	$6,447,438

24. Undelivered Orders at the end of Period

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

	2006
Unpaid	$2,522
Upward/Down Adjustment of Prior Period	(167)
Total Undelivered Orders at the end of Period	$2,355

25. Statement of Budgetary Resources (SBR)

The total Budgetary Resources of $12.6 billion for FY 2006 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.

The amount reported as Appropriations on the Statement of Budgetary Resources differs from the amount reported as Appropriations Received on the Statement of Changes in Net Position due to CBP's non-entity activity that is not reported on the Statement of Changes in Net Position.

26. Explanation of Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods

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

	2006	2005
Intra-governmental:		
Accrued FECA Liability	$ 118,226	$ 160,280
Total Intra-governmental	118,226	160,280
Public:		
Accrued Payroll and Benefits:		
Accrued Leave	227,692	206,593
Actuarial FECA Liability	556,745	536,241
Other:		
Environmental Cleanup Costs	15,823	43,447
Contingent Liability	14,804	35,936
Software License Agreements	61,691	74,855
Total Public	876,755	897,072
Total Liabilities Not Covered by Budgetary Resources	994,981	1,057,352
Total Liabilities Covered by Budgetary Resources or Non-Entity Assets	8,801,147	7,173,482
Total Liabilities	$9,796,128	$8,230,834

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

27. Custodial Revenues

The Consolidated Statement of Custodial Activity has been prepared from CBP accounting records in conformity with generally accepted accounting principles (GAAP). Custodial Revenue consists of duties, user fees, fines and penalties, refunds and drawback overpayments and interest associated with import/export activity which have been established as a specifically identifiable, legally enforceable claim and remain uncollected as of year-end. These receivables are net of amounts deemed uncollectible which were determined by considering the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties and an analysis of aged receivable activity. Primarily, revenue collections result from current fiscal year activity.

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

	2006
Refunds	$ 646,035
Drawback	514,016
Total	$1,160,051

Amounts refunded during FY 2006 identified by entry year consist of the following (in thousands):

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

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 year ended September 30, 2006, consisted of the following (in thousands):

	2006
Antidumping and countervailing duty refunds	$381,406
Interest	85,613
Total	$467,019

28. Statement of Financing

Explanation of Relationship Between Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods

Components Requiring or Generating Resources in Future Periods presented on the Statement of Financing represents the change between beginning and ending balances for Liabilities Not Covered by Budgetary Resources presented on the Consolidated Balance Sheet.

Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations

Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations includes $1.1 billion of refunds and drawbacks which are obligated and thus shown on the Statement of Budgetary Resources but are shown expended on the Statement of Custodial Activity, not on the Statement of Net Cost.

Customs and Border Protection
Required Supplementary Information
(Unaudited, see accompanying independent Auditor's Report)

Stewardship PP&E

As of September 30, 2006, CBP maintains four multi-use heritage assets located in Puerto Rico valued at $534 thousand and are fully depreciated. Heritage assets are property, plant and equipment that have historical or national significance, cultural, educational or artistic importance, or significant architectural characteristics. Heritage assets are generally expected to be preserved indefinitely. All multi-use heritage assets are reflected on the Consolidated Balance Sheet. Financial information for heritage assets and general PP&E is presented in the required supplementary information.

Deferred Maintenance

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

An assessment of Fair means the facility/equipment condition meets minimum standards but requires additional maintenance or repair to prevent further deterioration, increase operating efficiency and to achieve normal life expectancy. 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):

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

Custodial Activity

Substantially all duty, tax and fee revenues collected by CBP are remitted to various General Fund accounts maintained by Treasury. Treasury further distributes these revenues to other Federal agencies in accordance with various laws and regulations. CBP transfers the remaining revenue (generally less than two 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.

Customs and Border Protection
Required Supplementary Information (continued)
(Unaudited, see accompanying independent Auditor's Report)

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

Customs and Border Protection Schedule of Budgetary Resources by Major Fund Type

As of September 30, 2006 (in thousands):

	Appropriated Funds	Trust Funds	Other Funds	Totals
Budgetary Resources				
Unobligated balances brought forward, October 1	$ 514,175	$ 361	$1,209,708	$ 1,724,244
Recoveries of Prior Year Obligations	201,280	896	15,026	217,202
Budget Authority:				
Appropriations	5,440,771	5,894	3,807,136	9,253,801
Spending Authority from Offsetting Collections:				
Earned				
Collected	1,273,412	—	17,114	1,290,526
Change in Receivable From Federal Sources	22,788	10	(12,949)	9,849
Change in Unfilled Customer Orders:				
Advance Received	1,400	—	—	1,400
Without Advance From Federal Sources	41,599	39	425	42,063
Expenditure Transfers From Trust Funds	3,000	—	—	3,000
Subtotal	6,782,970	5,943	3,811,726	10,600,639
Non-Expenditure Transfers from Trust Funds	1,612,177	3,000	(1,371,314)	243,863
Permanently Not Available	(79,685)	—	(82,991)	(162,676)
Total Budgetary Resources	$9,030,917	$10,200	$3,582,155	$12,623,272

Customs and Border Protection
Required Supplementary Information (continued)
(Unaudited, see accompanying independent Auditor's Report)

Customs and Border Protection Schedule of Budgetary Resources by Major Fund Type (continued)

	Appropriated Funds	Trust Funds	Other Funds	Totals
Status of Budgetary Resources				
Obligations Incurred:				
Direct	$6,929,278	$ 9,945	$2,093,149	$ 9,032,372
Reimbursable	1,279,354	—	16,003	1,295,357
Total Obligations Incurred	8,208,632	9,945	2,109,152	10,327,729
Unobligated Balance:				
Apportioned	279,651	—	13,844	293,495
Exempt From Apportionment	—	—	328	328
Subtotal	279,651	—	14,172	293,823
Unobligated Balance Not Available	542,634	255	1,458,831	2,001,720
Total Status of Budgetary Resources	$9,030,917	$10,200	$3,582,155	$12,623,272
Change in Obligated Balances				
Obligated Balance, Net				
Unpaid Obligations Brought Forward, October 1	$2,294,870	$11,122	$ 91,634	$ 2,397,626
Less: Uncollected Customer Payments From Federal Sources, Brought Forward From October 1	(308,612)	(48)	(14,369)	(323,029)
Total Unpaid Obligated Balance, Net	1,986,258	11,074	77,265	2,074,597
Obligations Incurred, Net	8,208,632	9,945	2,109,152	10,327,729
Less: Gross Outlays	(7,341,938)	(11,765)	(2,087,276)	(9,440,979)
Less: Recoveries of Prior Year Unpaid Obligations	(201,280)	(896)	(15,026)	(217,202)
Change In Uncollected Customer Pymts From Federal Sources	(64,386)	(49)	12,523	(51,912)
Obligated Balance, Net End Of Period				
Unpaid Obligations	2,960,284	8,406	98,484	3,067,174
Less: Uncollected Customer Pymts From Federal Sources	(372,998)	(97)	(1,846)	(374,941)
Total, Unpaid Obligated Balance, Net, End Of Period	2,587,286	8,309	96,638	2,692,233
Net Outlays				
Gross Outlays	7,341,938	11,765	2,087,276	9,440,979
Less: Offsetting Collections	(1,277,813)	—	(17,113)	(1,294,926)
Less: Distributed Offsetting Receipts	—	—	(2,347,944)	(2,347,944)
Net Outlays	$6,064,125	$11,765	$ (277,781)	$ 5,798,109

Customs and Border Protection
Other Accompanying Information
(Unaudited, see accompanying independent Auditor's Report)

Revenue Gap

The Compliance Measurement Program collects objective statistical data to determine the compliance level of commercial imports with U.S. trade laws, regulations and agreements, and it estimates the revenue gap. The revenue gap is a calculated estimate that measures potential loss of revenue owing to noncompliance with trade laws, regulations, and agreements using a statistically valid sample of the revenue losses and overpayments detected during Compliance Measurement entry summary reviews conducted throughout the year. For FY 2005, the actual revenue gap was $470 million. CBP has calculated the preliminary FY 2006 revenue gap to be $314 million. The projected over-collection and under-collection amounts due to noncompliance were $128 million and $442 million in FY 2006, respectively. The preliminary overall trade compliance rate for FY 2006 is 96.6 percent. With overall compliance at a high level, CBP has been able to emphasize matters of significant trade risk.

The final overall trade compliance rate and estimated revenue gap for FY 2006 will be issued in January 2007.

Petitioned and Protested Schedule

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

	2006					
	Balance October 1	Additional Assessments	Protest in Favor of Debtor	Net Reduction Administrative Process	Additional Receivable	Balance September 30
Duties	60,190	82,779	(8,776)	(59,307)	(12,143)	62,743
Taxes	648	637	(19)	(498)	(245)	523
Fees	346	1,871	(122)	(1,620)	(101)	374
Fines/Penalties	1,461,138	1,648,233	(636,309)	(59)	(502,624)	1,970,379
Interest	95,218	76,961	(15,772)	(29,803)	(27,352)	99,252
Antidumping/ Countervailing Duty	228,300	235,230	(22,591)	(60,110)	(124,518)	256,311
Refunds & Drawback	9,588	9,882	(1,040)	(6,717)	(1,026)	10,687
Totals	1,855,428	2,055,593	(684,629)	(158,114)	(668,009)	2,400,269

CBP reviews selected entry documentation to determine whether importer payment estimates of duties, taxes and fees were accurate or whether additional supplemental amounts are owed and should be billed. CBP regulations allow the importer 90 days (or 180 days for entries on or after 12/18/04) from the bill date in which to file a protest to be reviewed by the Port Director and an application requesting further review of the protest by CBP Office of Regulations and Rulings challenging the assessment of supplemental duties, taxes and fees. If the Port Director denies the protest and application for further

Customs and Border Protection
Other Accompanying Information (continued)
(Unaudited, see accompanying independent Auditor's Report)

review, the protestor has an additional 60 days from the denial date for a review of the application by the Commissioner of CBP. Consequently, CBP recognizes accounts receivables only when the protested period has elapsed or when a protest decision has been rendered in CBP favor.

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

Entity Receivables

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

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

Customs and Border Protection
Other Accompanying Information (continued)
(Unaudited, see accompanying independent Auditor's Report)

Non-Entity Receivables

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

2006

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

An aging of non-entity Intra-governmental receivables as of September 30, 2006 is as follows (in thousands):

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

Customs and Border Protection
Other Accompanying Information (continued)
(Unaudited, see accompanying independent Auditor's Report)

CBP Collections by Category
(Dollars in thousands)

Duties	**2002**	**2003**	**2004**	**2005**	**2006**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Consumption entries	$19,485,864	$20,331,692	$21,012,275	$23,213,476	$24,787,051
Warehouse withdrawals	132,078	116,803	115,512	107,477	90,832
Mail entries	4,238	3,961	3,175	2,687	2,696
Passenger baggage entries	7,609	4,381	4,551	3,985	4,386
Crew baggage entries	36	25	17	11	9
Military baggage entries	18	6	4	2	2
Informal entries	49,911	49,616	53,612	55,680	57,415
Vessel repair entries	12,494	12,213	36,033	38,687	15,742
Other duties	95,695	82,728	54,433	44,552	37,853
Total Duties	19,787,943	20,601,425	21,279,612	23,466,557	24,995,986
Miscellaneous					
Violations of CBP law	55,789	54,407	52,159	54,227	49,797
Testing, inspecting & grading	35	62	54	56	46
Miscellaneous taxes	71,653	41,186	17,391	18,659	19,803
USDA collections	70,036	74,520	77,410	91,070	94,359
Harbor maintenance fee	673,348	757,882	869,522	1,047,843	1,206,414
Fees	4,774	4,258	5,195	5,419	7,107
User fee account	1,233,347	1,322,756	1,464,138	1,600,365	1,702,043
Unclaimed funds	1,337	897	1,081	1,124	991
Recoveries	30	6	53	3	2
Interest	15,389	12,711	9,892	9,760	8,604
Other CBP receipts	7,694	5,199	8,663	9,645	17,246
Total Miscellaneous	2,133,432	2,273,884	2,505,558	2,838,171	3,106,412
Internal Revenue Taxes	1,913,752	2,092,276	2,205,744	2,255,482	2,345,992
Total Collections	$23,835,127	$24,967,585	$25,990,914	$28,560,210	$30,448,390

Customs and Border Protection
Other Accompanying Information (continued)
(Unaudited, see accompanying independent Auditor's Report)

Total Collections include custodial, duty, tax, fee and interest collections and entity user fee collections recorded by port locations during the period October through September are as follows:

	2002	2003	2004	2005	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Custodial collections	$22,605,492	$24,681,966	$25,676,473	$28,235,545	$30,112,330
Entity collections	1,229,635	285,619	314,441	324,665	336,060
Total Collections	$23,835,127	$24,967,585	$25,990,914	$28,560,210	$30,448,390

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

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

	2002	2003	2004	2005	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Boston	$ 453,907	$ 426,545	$ 440,158	$ 457,696	$ 478,550
Buffalo-Niagara Falls	150,806	166,428	181,876	201,428	210,888
Ogdensburg	87,991	87,237	102,490	120,864	141,628
Portland, Maine	45,706	49,879	54,311	59,397	57,673
Providence	35,909	60,692	67,787	74,624	83,238
St. Albans	29,001	34,473	41,129	47,311	44,687
Baltimore	491,299	558,733	548,892	584,537	584,719
Philadelphia	539,610	526,844	549,459	586,956	639,201
Newark	3,639,930	3,851,645	3,961,215	4,179,939	4,362,201
JFK Airport	1,255,133	1,291,671	1,274,989	1,300,376	1,220,472
Charleston	693,832	807,133	906,318	1,145,999	1,175,442
Miami	773,030	819,933	844,143	798,307	752,711
San Juan	185,885	99,920	98,709	15,381	123,132
St. Thomas	23,266	10,429	11,949	113,244	14,819
Savannah	835,753	956,698	958,250	1,108,911	1,265,007
Tampa	388,254	416,743	390,533	409,229	473,650
Wilmington	265,276	263,549	272,646	267,769	290,312
Norfolk	474,699	553,719	563,558	629,274	674,041

Customs and Border Protection
Other Accompanying Information (continued)
(Unaudited, see accompanying independent Auditor's Report)

CBP Collections by Major Processing Port Locations (continued)

	2002	2003	2004	2005	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
NFC Indianapolis/ Washington	632,622	654,492	761,791	737,498	1,004,911
Mobile	93,955	105,512	108,809	125,715	157,920
New Orleans	776,773	847,966	855,041	885,110	936,744
Dallas/Ft Worth	291,823	311,226	335,763	378,052	418,128
El Paso	68,121	93,057	112,521	126,113	146,472
Houston	516,549	518,039	497,180	611,527	773,047
Laredo	303,162	301,332	307,842	337,921	370,216
Port Arthur	33,466	32,161	32,613	35,092	28,144
Nogales	84,809	97,051	92,216	82,636	77,832
Los Angeles	5,291,462	5,589,441	5,982,568	6,788,238	7,258,249
San Diego	210,054	226,881	230,158	237,419	259,000
Anchorage	88,657	85,086	101,446	84,913	103,998
Honolulu	37,541	41,255	45,898	42,089	39,670
Portland	353,457	336,487	341,904	369,471	395,707
San Francisco	684,473	707,208	774,722	800,687	945,986
Seattle	783,326	818,627	816,870	1,143,720	1,157,762
Chicago	1,266,939	1,261,818	1,299,606	1,412,668	1,436,691
Cleveland	1,015,719	1,001,462	1,009,197	1,114,677	1,245,447
Detroit	396,886	433,890	487,286	552,711	546,870
Milwaukee	32,876	36,656	32,437	32,630	33,230
Minneapolis	112,649	119,441	123,082	132,869	168,568
Pembina	11,786	12,990	14,256	16,434	17,631
St. Louis	268,592	305,061	293,594	304,816	271,647
Great Falls	103,760	107,655	124,965	140,278	152,974
Total Collections	23,828,744	25,027,065	26,050,177	28,594,526	30,539,215
Net Financial Statement Adjustments (a)	6,383	(59,480)	(59,263)	(34,316)	(90,825)
Total Revenues Collected	$23,835,127	$24,967,585	$25,990,914	$28,560,210	$30,448,390

(a) Total collections represent collections recorded by the port locations during the fiscal year. Net financial statement adjustments primarily represent adjustments for timing differences for collections received during the fiscal year but not recorded until the next fiscal year.

Auditor Reports

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

The DHS OIG's Summary of Major Management Challenges Facing the Department of Homeland Security, dated October 23, 2006, and the agency's progress addressing these challenges are addressed at the DHS consolidated level and are incorporated into the DHS Fiscal Year 2006 PAR.

Independent Auditor's Report

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

Office of Inspector General

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

Homeland Security

November 15, 2006

MEMORANDUM FOR: The Honorable W. Ralph Basham
Commissioner
Customs and Border Protection

FROM: Richard L. Skinner
Inspector General

SUBJECT: *Independent Auditors' Report on CBP's FY 2006 Consolidated Financial Statements*

The attached report presents the results of our audit of the Department of Homeland Security's (Department) Bureau of Customs and Border Protection (CBP) consolidated balance sheet as of and for the year ending September 30, 2006 and 2005, and the related consolidated statement of net cost, changes in net position, financing, and custodial activity, and the combined statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the year ended September 30, 2006. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audits.

Summary

KPMG issued an unqualified opinion on CBP's consolidated financial statements for FY 2006. The FY 2006 auditors' report discusses two material weaknesses, two other reportable conditions, and instances of non-compliance with three laws and regulations, as follows:

Reportable Conditions That Are Considered To Be Material Weaknesses

A. Drawback of Duties, Taxes, and Fees
B. Information Technology

Other Reportable Conditions

C. Financial Reporting
   - Property, Plant, and Equipment
   - Imputed Financing Costs
   - Financial Statement Presentation

D. Entry Process
   - Compliance Measurement Program
   - Bonded Warehouse and Foreign Trade Zones
   - In-Bond Program

Non-Compliance with Laws and Regulations

E. Federal Information Security Management Act of 2002 (FISMA)
F. Federal Financial Management Improvement Act of 1996 (FFMIA)
G. Improper Payments Information Act of 2002 (IPIA)

* * * * *

KPMG is responsible for the attached auditors' report dated November 15, 2006, and the conclusions expressed in the report. We do not express opinions on the financial statements or internal control or conclusions on compliance with laws and regulations.

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

We request that a corrective action plan that demonstrates CBP's progress in addressing the report's recommendations be provided to us within 90 days of the date of this letter.

We appreciate the cooperation extended to the auditors by your staff. Should you have any questions, please call me, or your staff my contact David M. Zavada, Assistant Inspector General for Audits, at 202-254-4100.

Attachment

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Inspector General
U.S. Department of Homeland Security:

Commissioner
Customs and Border Protection:

We have audited the accompanying consolidated balance sheets of the U.S. Department of Homeland Security's (DHS) Bureau of Customs and Border Protection (CBP) as of September 30, 2006 and 2005, and the related consolidated statement of net cost, changes in net position, financing, and custodial activity, and the combined statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the year ended September 30, 2006. 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 2006 audit, we also considered CBP's internal controls over financial reporting and performance measures, and tested CBP's compliance with certain provisions of applicable laws, regulations, and contract agreements that could have a direct and material effect on these consolidated financial statements.

SUMMARY

As stated in our opinion on the consolidated financial statements, we concluded that CBP's consolidated financial statements as of September 30, 2006 and 2005 and for the year ended September 30, 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 1 and 15 to the consolidated financial statements, CBP changed its method of accounting for and reporting earmarked funds in fiscal year 2006 to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 27, *Identifying and Reporting Earmarked Funds*.

Our consideration of internal controls over financial reporting and performance measures resulted in the following conditions being identified as reportable conditions:

1. Drawback of Duties, Taxes, and Fees
2. Information Technology
3. Financial Reporting
   - Property, Plant, and Equipment
   - Intra-Departmental Imputed Financing Costs
   - Financial Statement Presentation
4. Entry Process
   - Compliance Measurement Program
   - Bonded Warehouse and Foreign Trade Zones
   - In-Bond Program

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

The results of our tests of compliance with certain provisions of laws, regulations, and contract agreements disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

- Federal Information Security Management Act (Electronic Governmental Act of 2002)
- Federal Financial Management Improvement Act of 1996 (FFMIA)
- Improper Payments Information Act of 2002

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the Department of Homeland Security's (DHS) Bureau of Customs and Border Protection (CBP) as of September 30, 2006 and 2005, and the related consolidated statement of net cost, changes in net position, financing, and custodial activity and the combined statement of budgetary resources for the year ended September 30, 2006.

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, 2006 and 2005, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity for the year ended September 30, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 1 and 15 to the consolidated financial statements, CBP changed its method of accounting for and reporting earmarked funds in fiscal year 2006 to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 27, *Identifying and Reporting Earmarked Funds*.

The information in the Management Discussion and Analysis and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the FY 2006 Management Discussion and Analysis and Performance Section and Other Accompanying Information section on pages 5 to 52 and 107 to 112 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 internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect CBP's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

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

In our fiscal year 2006 audit, we noted certain matters, described in Exhibits I and II, involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the reportable conditions presented in Exhibit I are material weaknesses. Exhibit II presents the other reportable conditions. Exhibit IV presents the status of prior year reportable conditions.

INTERNAL CONTROLS OVER PERFORMANCE MEASURES

Under OMB Bulletin No. 06-03, the definition of material weaknesses is extended to other controls as follows. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our consideration of the internal control over the existence and completeness assertions related to key performance measures would not necessarily disclose all matters involving the internal control and its operation related to the design and operation of the internal control over the existence and completeness assertions related to key performance measures that might be reportable conditions.

In our fiscal year 2006 audit, we noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

COMPLIANCE AND OTHER MATTERS

Our tests of compliance with certain provisions of laws, regulations, and contract agreements, as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03, and are described in Exhibit III.

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

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

* * * * *

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

RESPONSIBILITIES

Management's Responsibilities. The United States Code Title 31 Section 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To assist DHS in meeting these reporting requirements, CBP prepares and submits financial statements in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing the Management Discussion and Analysis (including the performance measures) and Required Supplementary Information;
- Establishing and maintaining effective internal control; and
- Complying with laws, regulations, and contract agreements applicable to the CBP, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2006 and 2005 consolidated balance sheet and the related consolidated statement of net cost, changes in net position, financing, and custodial activity and the combined statement of budgetary resources for the year ended September 30, 2006 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. 06-03. Those standards and OMB Bulletin No. 06-03 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.

KPMG

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

In planning and performing our fiscal year 2006 audit, we considered CBP's internal control over financial reporting by obtaining an understanding of CBP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide an opinion on CBP's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 06-03, in our fiscal year 2006 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis and Performance sections, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin 06-03. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether CBP's fiscal year 2006 consolidated financial statements are free of material misstatement, we performed tests of CBP's compliance with certain provisions of laws, regulations, and contract agreements, noncompliance with which could have a direct 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. 06-03, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contract agreements applicable to CBP. However, providing an opinion on compliance with laws, regulations, and contract agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 06-03 and FFMIA, we are required to report whether CBP's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

RESTRICTED USE

This report is intended solely for the information and use of CBP 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

November 15, 2006

EXHIBIT I

Material Weaknesses

A. Drawback of Duties, Taxes and Fees

Background:

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

Drawback is a remittance in whole or in part, of duties, taxes, or fees previously paid by an importer. Drawback typically occurs when the imported goods on which duties, taxes, or fees have been previously paid are subsequently exported from the United States or destroyed prior to entering the commerce of the United States. Depending on the type of drawback claim, the claimant has up to eight years from the date of importation to file for drawback. During the end of FY 2005, regulations were passed by the U.S. Congress that stipulated the timeframe for liquidating claims; this new process is known as deem-liquidation by CBP. As a result of the new deem-liquidation process, CBP implemented new policies and procedures during FY 2006 that require the payment of claims in an accelerated timeframe.

Condition:

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

- The Automated Commercial System (ACS) lacked automated controls to detect and prevent excessive drawback claims and payments, necessitating inefficient manual processes that do not effectively compensate for these automated controls. ACS did not have the capability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries or export documentation upon which the drawback claim was based. For example, ACS did not contain electronic edit checks that would flag duplicate claims for export of the same merchandise;

- In addition, we noted that ACS lacked controls to prevent overpayment of drawback claims at the summary line level that were subject to the new deem liquidation process put in place during FY 2006. Specifically, we noted approximately $387K of overpayments. Also during FY 2006, we noted a claim that was disbursed via accelerated payment in a prior year that was subsequently paid again during FY 2006;

- Drawback review policies did not require drawback specialists to review all related drawback claims against the underlying consumption entries to determine whether, in the aggregate, an excessive amount was claimed. During FY 2006, CBP implemented a statistical sampling method related to underlying consumption entries. However, a review has not occurred to determine the effectiveness of the new sampling method. In addition, under the new methodology drawback specialists are not required to review all prior drawback claims against a selected import entry;

EXHIBIT I

- CBP drawback review policy and procedures allowed drawback specialists, with supervisory approval, to judgmentally decrease the number of ACS selected underlying consumption entries randomly selected for review, thus decreasing the review's effectiveness; and

- The initial period for document retention related to a drawback claim is only 3 years from the date of payment. However, there are several situations that could extend the life of the drawback claim well beyond those 3 years. Also, the policy language was ambiguous; "…three years from the date of payment…" left open to interpretation whether the three years began on the date of the accelerated payment (if any), or the payment at final liquidation.

Cause/Effect:

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

Criteria:

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

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

Recommendations:

We recommend that CBP:

1. Implement effective internal controls over drawback claims as part of any new systems initiatives, including the ability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries and export documentation for which the drawback claim is based, and identify duplicate or excessive drawback claims;

EXHIBIT I

2. Implement automated controls within ACS to prevent overpayment of a drawback claim that is subject to deem-liquidation as well as automated controls to prevent duplicate payments of refund claims;

3. Evaluate the effectiveness of the sampling methodology implemented in FY 2006 related to underlying consumption entries;

4. Eliminate the drawback specialists ability, with supervisory approval, to judgmentally decrease the number of ACS selected underlying consumption entries randomly selected for review, thereby reducing the effectiveness of the statistical sample; and

5. Continue to work with the U.S. Congress to lengthen the required document retention period for all supporting documentation so that it corresponds with the drawback claim life cycle.

B. Information Technology

Background:

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

Condition:

During FY 2006, CBP took corrective actions to address prior year IT control weaknesses. However, during FY 2006, we continued to find IT general and application control weaknesses at CBP. The most significant weaknesses from a financial statement audit perspective relate to information security. Collectively, the IT control weaknesses limit CBP's ability to ensure that critical financial and operational data is maintained in such a manner to ensure confidentiality, integrity, and availability. Because of the sensitive nature of the issues identified, we will issue a separate restricted distribution report to address those issues in detail.

Criteria:

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

EXHIBIT I

Recommendation:

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

EXHIBIT II

Other Reportable Conditions

C. Financial Reporting

1. Property, Plant, and Equipment

Background:

During FY 2006, CBP determined that errors existed in property, plant, and equipment (PPE) as of September 30, 2005. The ultimate affect of the majority of the errors were determined in 3rd quarter and were recorded during the 3rd and 4th quarter. Based upon the review completed by CBP it was determined that the PPE balance as of September 30, 2005 was overstated by $172 million.

The errors were noted in the following categories:

1. Software projects were recorded as software in development and not software in use; thereby no deprecation expense was recorded in prior periods. The incorrect classification caused an overstatement of $160 million in the software in use net book value.
2. Real property inventory procedures resulted in identifying an additional $76 million in assets not recorded or assets not recorded at the correct cost.
3. Aircraft were recorded as aircraft construction in progress and not aircraft in use; thereby no depreciation expense was recorded in prior periods. The incorrect classification caused an overstatement of $47 million in the aircraft in use net book value.
4. Other PPE equipment and leasehold improvements were incorrectly recorded or not recorded causing an overstatement of $41 million in net book value.

Condition:

CBP's property, plant, and equipment balance was misstated by approximately $172 million at September 30, 2005. CBP undertook a significant project to identify and properly account for these errors. CBP did not determine the final adjustments until 3rd and 4th quarters, thus resulting in misstatements of PPE for the first three quarters of FY 2006. It is noted that the errors related to the aircraft account balances were corrected during the second quarter.

Cause/Effect:

CBP's untimely recognition and correction of errors in PPE resulted in material misstatement in CBP's financial records for the first three quarters of FY 2006.

Criteria:

Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, requires that:

- PP&E be recorded at historical cost with an adjustment recorded for depreciation. In the absence of such information, estimates may be used based on a comparison of similar assets with known values or inflation-adjusted current costs; and
- PP&E accounts be adjusted for disposals, retirements and removal of PP&E, including associated depreciation; and

EXHIBIT II

- Upon completion of a construction project, costs should be capitalized into fixed assets.

OMB Circular No. A-123, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely and reliable financial and other reports. Documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

SFFAS No. 10, *Accounting for Internal Use Software*, provides requirements for the capitalization and reporting of software development costs.

Recommendation:

We recommend that CBP:

1. Develop and implement policies and procedures to monitor property, plant, and equipment balances throughout the year and identified errors should be researched and corrected in a timely manner;

2. CBP's "FY 2005 PPE Clean-Up Group" should make permanent the property, plant, and equipment review procedures developed in FY 2006 to detect and prevent errors in property, plant and equipment; and

3. Coordination should be stressed and documented among the responsible CBP offices.

2. Intra-Departmental Imputed Financing Costs

Background:

The Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards and Concepts* (SFFAS No. 4) effective beginning in FY 2005, requires that "each entity's full cost should incorporate the full cost of goods and services that are received from other entities." SFFAS No. 4 explains that, for some inter-entity costs, the provider will be reimbursed by the recipient at full cost. As such, the full cost of these inter-entity goods and services will be recognized in the recipient entity's accounts through the normal recording of transactions. SFFAS No. 4 also specifies that costs not fully reimbursed by the receiving entity should be recognized at the full cost. To accomplish recognition, the receiving entity should recognize an imputed financing source for the difference between the actual payment (if any) and the full cost.

Condition:

CBP did have not in place a process to identify imputed financing sources and related costs for services provided by other bureaus within the Department of Homeland Security (DHS).

Cause/Effect:

CBP did not have procedures in place during FY 2006 to ensure that intra departmental imputed costs are recognized in accordance with SFFAS No. 4 and Interpretation No. 6. Furthermore, CBP did not receive

EXHIBIT II

the necessary information from other DHS bureaus in a timely manner in order to calculate the total imputed financing costs until the 4th quarter.

Criteria:

Imputed intra-departmental costs are defined by SFFAS No. 4 and again in Interpretation No. 6, as the unreimbursed portion of the full cost of goods and services received by the entity (whether recognized or not) from a providing entity that is part of the same department or larger reporting entity. Interpretation No. 6 clarifies the requirement that the accounting and implementation applies to both imputed intra-Departmental and inter-Departmental costs.

Recommendations:

We recommend that CBP:

1. Identify and maintain as current all activity with other DHS bureaus and determine if the items are recorded at full cost as required by SFFAS No. 4, interpretation No. 6;

2. Obtain through the Department the necessary documentation from the other DHS bureaus in order to determine the imputed financing and costs to be recorded for those services/goods not already recorded at full cost; and

3. Update at least twice a year, once at year-end, the imputed financing and costs associated with intra-DHS activity.

3. Financial Statement Presentation

Background:

Financial statement presentation at CBP is dependent upon guidance provided by the DHS – Office of the Chief Financial Officer (OCFO), however DHS' financial reporting resources are decentralized at the component level (CBP), thereby requiring CBP to have in place policies and procedures to ensure adequate year-end financial statement presentation. It was noted during FY 2006, the DHS-OCFO did not provide adequate financial statement presentation guidance to the bureaus, including CBP.

Condition:

CBP's September 30, 2006 pro-forma financial statements had significant weaknesses or omissions related to the presentation of the financial statements and notes. Specifically, we noted the following:

- CBP's consolidated balance sheet and related notes were not presented on a comparative basis.

- CBP's summary of significant accounting policies (note 1) did not include the following disclosures:

    1. Narrative discussion of the implementation of SFFAS No. 27, *Identifying and Reporting Earmarked Funds*;

EXHIBIT II

2. Narrative discussion related to the adoption of new accounting standards (included in the "Basis of Accounting" section);
3. Narrative discussion related to intra-CBP eliminations (included in the "Basis of Accounting" section); and
4. Narrative discussion related to reclassifications.

- CBP's statement of net cost was not presented in accordance with OMB A-136, *Financial Reporting Requirements*.

- CBP's earmarked funds note was missing the narrative discussion related to each fund required by SFFAS No. 27, paragraph 23.

- CBP's notes did not include disclosures related to the Statement of Financing

- Custodial revenue note was missing disclosures required by SFFAS No. 7, *Accounting for Revenue and other Financing Sources*. Specifically, CBP collects approximately $2.3 billion in excise taxes. Per paragraph 65 of SFFAS No. 7, CBP's cash collections and refunds by tax year and type of tax should include cash collections and cash refunds for the reporting period and for sufficient prior periods to illustrate (1) the historical timing of tax collections and refunds, and (2) any material trends in collection and refund patterns. CBP's note only provided information related to refunds and not tax collections.

- CBP's required supplementary information (RSI) did not include the combining Statement of Budgetary Resources (SBR) as required by OMB Circular No. A-136.

Cause/Effect:

CBP did not prepare pro-forma financial statements that were in accordance with the FASAB statements and OMB circulars. This was caused by the lack of guidance provided by the Department (DHS-CFO) for preparing year-end financial statements. Without the proper presentation and disclosures noted above, CBP will present financial statements that are not in accordance with SFFAS #'s 7, and 27 and OMB Circular No. A-136.

Criteria:

SFFAS No. 7, *Accounting for Revenue and other Financing Sources*, paragraphs 64-66, 67-68, and 69, provide the presentation requirements for Custodial revenue in the notes, required supplementary information, and other accompanying information.

Specifically, paragraph 65 requires the following disclosure:

- Cash collections and refunds by tax year and type of tax should include cash collections and cash refunds for the reporting period and for sufficient prior periods to illustrate (1) the historical timing of tax collections and refunds, and (2) any material trends in collection and refund patterns. Sufficient prior periods for each type of tax are the periods which end when the statutory period for collection ends. Collecting entities may shorten these periods if evidence for prior tax years indicates that a shorter period would reflect at least 99 percent of the collectible taxes.

EXHIBIT II

SFFAS No. 27, *Identifying and Reporting Earmarked Funds*, paragraph 23, requires the following information to be disclosed in the notes:

- A description of each fund's purpose, how the entity accounts for and reports the fund, and its authority to use those revenues and other financing sources.
- The sources of revenue or other financing for the period and an explanation of the extent to which they are inflows of resources to the Government or the result of intragovernmental flows.
- Any change in legislation during or subsequent to the reporting period and before the issuance of the financial statements that significantly changes the purpose of the fund or that redirects a material portion of the accumulated balance.

Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*, sets forth the financial reporting requirements of Federal agencies. Specifically, the following items are required:

- Section II.4.1b – states that comparative financial statements are required.
- Section II.4.4.1 – states that the Statement of Net Cost shall present costs and revenues as gross of public and intragovernmental. A note is required then to show the break-out between intragovernmental and public costs and revenues.
- Section II.4.10.1 – states that the summary of significant accounting policies should include a description of changes in generally accepted accounting principles impacting the financial statements.
- Section II.4.10.37-.38 – provide examples of notes suggested for the Statement of Financing.
- Section II.4.12.5 – states that budgetary information aggregated for purposes of the SBR should be disaggregated for each of the reporting entity's major budget accounts and presented as RSI. Therefore, a Combining SBR should be presented as part of RSI.

Recommendation:

We recommend that CBP work jointly with the DHS-CFO department to ensure that the financial statement guidance provided from the department is in accordance with all FASAB statements and OMB circulars. If the DHS-CFO's guidance is not in accordance with FASAB statements and OMB circulars, CBP should make this apparent to the DHS-CFO and ensure that their stand-alone audit statements remain in accordance with the standards.

EXHIBIT II

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

- Untimely results of CM exams. The FY 2006 memorandum for CM changes noted in condition 1 above includes an adjustment extending the deadline for ISDA comments from the Import Specialists to 120 days. Due to the extension in imputing results, CBP is unable to analyze the results of CM exams in a timely manner; and

- CBP performs little review or analysis on the CM data to ensure that it was inputted correctly.

Cause/Effect:

CBP has been challenged to balance its commitment of limited resources to two important mission objectives – trade compliance, including the collection of taxes, duties and fees owed to the Federal government, and securing the U.S. borders from potential terrorist entry. While these mission objectives do overlap somewhat, there are differences in how resources are deployed. In fiscal year 2006, CBP made significant improvements in its custodial review controls and measurement processes, procedures and policies.

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

Recommendations:

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

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

2. Conduct periodic training to ensure that all port personnel have comprehensive knowledge of the CM program requirements;

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

4. Establish an effective means of communication between the Office of Field Operations and Office of Strategic Trade to ensure data quality issues are timely addressed.

EXHIBIT II

2. Bonded Warehouse and Foreign Trade Zones

Background:

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

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

Condition:

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

- CBP lacked official policies and procedures for completing risk assessments and compliance reviews for the entire fiscal year (procedures formalized in March 2006) to address the monitoring of BWs and FTZs;

- Inconsistent procedures followed by the ports for completing the risk assessments and compliance reviews; and

- Annual surveys are completed by the ports and manually provided to Headquarters once a year. The HQ review of the manually provided surveys can take up to 6 months to compile and analyze.

Criteria:

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

Cause/Effect:

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

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

EXHIBIT II

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

Recommendations:

We recommend that CBP:

1. Ensure adequate communication of the ports requirements related to compliance reviews and provide effective training so that all responsible personnel are aware of and can consistently execute all of the requirements; and

2. Implement an electronic survey to be received and completed by the ports and sent back to HQs in order to ensure timely response and review by HQ personnel.

3. In-Bond Program

Background:

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

Condition:

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

- Inconsistent procedures followed by the ports for completing compliance reviews/audits of in-bond entries;

- Inconsistent review of required monthly reports related to in-bond activity at the ports;

- National policies or procedures do not exist to monitor the results of In-Bond audits; and

- CBP has not implemented a CMP to measure the revenue gap and effectiveness of controls over trade compliance related to the In-bond process.

Criteria:

Under FMFIA, management must implement cost-effective controls to safeguard assets and ensure reliable financial reporting. OMB's *Revised Implementation Guidance for FFMIA,* states that financial

EXHIBIT II

systems should "routinely provide reliable financial information consistently, accurately, and reported uniformly" to support management of current operations.

Cause/Effect:

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

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

Recommendations:

We recommend that CBP:

1. Communicate to the ports the requirements for the in-bond program and provide adequate training for appropriate personnel to ensure that the requirements are carried out accurately;

2. Develop policies and procedures for the review of required monthly reports. The policies and procedures should state how often the monthly reports are to be reviewed and the exact procedures to follow when completing the review;

3. Maintain supporting documentation, such as the manifests, bill of ladings, or permits reviewed for all In-bond audits performed;

4. Implement a standard procedure to periodically compile the results of all In-bond audits performed during the year and develop an analysis function in order to evaluate importers' compliance with regulations as well as the overall effectiveness of the In-bond audits at a national level; and

5. Consider the cost/effectiveness of implementing a CMP (revenue gap calculation) over In-Bond to assess the risk of revenue loss and violations of trade regulations by importers.

Exhibit III

Compliance with Laws and Regulations
(Findings A – B and C – D are presented in Exhibits I and II, respectively)

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

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

Recommendations:

We recommend that CBP fully implement the requirements of FISMA in fiscal year 2007.

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

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

Specifically, we noted the following weaknesses:

1. With respect to Federal financial management system requirements, CBP's inventory transactions do not interface between the inventory systems and the financial system (SAP) and non-entity accounts receivable do not interface between ACS and SAP; and

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

Recommendation:

We recommend that CBP improve its processes to ensure compliance with the FFMIA in fiscal year 2007.

Exhibit III

G. Improper Payments Information Act of 2002 (IPIA)

CBP is required to comply with the *Improper Payments Information Act of 2002* (the Act) in order to assist DHS in achieving overall compliance. The Act requires agencies to review all programs and activities they administer annually and identify those that may be susceptible to significant erroneous payments. For all programs and activities where the risk of erroneous payments is significant, agencies must estimate the annual amounts of erroneous payments, and report the estimates to the President and Congress with a progress report on actions to reduce them. The agency must report a statistically valid error projection for susceptible programs in its annual PAR. To facilitate the implementation of the Act, OMB issued guidance in Memorandum M-03-13, *Implementation Guide for the Improper Payments Information Act of 2002*, which among other matters provided a recommended process to meet the disclosure requirements. We noted that CBP did not complete IPIA sampling and testwork as it relates to custodial activity disbursements and as a result could not provide complete IPIA information to DHS.

Recommendation:

We recommend that CBP ensure that the results of all improper payments testwork are obtained, evaluated, and provided to DHS in order to meet the IPIA reporting requirements in FY 2007.

EXHIBIT IV

Prior Year Condition	As Reported at September 30, 2005	Status as of September 30, 2006
Drawback of Duties, Taxes and Fees	**Material Weakness:** ACS lacked controls to detect and prevent excessive drawback claims and payments, requiring inefficient manual processes to compensate and the drawback review policies did not require drawback specialists to review all related drawback claims.	**Continue as a material weakness:** Weaknesses continue to exist related to the drawback process. See control finding letter A.
Information Technology	**Material Weakness:** Weaknesses were noted in entity-wide security, system access, segregation of duties, service continuity, and system software change management.	**Continue as a material weakness:** Although improvements were made, weaknesses still remained in all areas noted during fiscal year 2005. See control finding letter B.
Environmental Clean-up Costs	**Material Weakness:** CBP did not have procedures in place to determine the overall environmental liabilities to be recorded in the September 30, 2005 financial statements. No single program existed in CBP in order to manage CBP's environmental liabilities. In addition, we noted a lack of communication within the organization related to the requirements associated with environmental liabilities.	**No longer considered a material weakness.**
Entry Process – Compliance Measurement Program	**Reportable Condition:** Several weaknesses existed related to CMP, such as inconsistent procedures followed at the ports, reduced CMP sample size, lack of NASD port audits, and little review or analysis on the CM data to ensure that it was inputted correctly.	**Continue as a reportable condition:** Although improvements were made, weaknesses still remain during fiscal year 2006. See control finding letter D.
Entry Process – Bonded Warehouse and Foreign Trade Zones	**Reportable Condition:** Several weaknesses existed related to BW/FTZ, such as the lack of official guidance and training to address the monitoring of BW/FTZ, lack of management review of the BW/FTZ surveys, and the lack of a revenue gap calculation related to BW/FTZ.	**Continue as a reportable condition:** Weaknesses continue to exist related to the bonded warehouse and foreign trade zone process. See control finding letter D.
Non-compliance with the *Federal Managers' Financial Integrity Act of 1982*	**Instance of non-compliance:** CBP was not in compliance with FMFIA. FMFIA requires Federal managers to: 1) develop and implement management controls; 2) assess the adequacy of management controls; 3) identify needed improvements; 4) take corresponding corrective action; 5) report annually on management controls. CBP's FMFIA report did not note all material weaknesses identified in the Independent Auditors' Report.	**No longer considered an instance of non-compliance**

Exhibit IV

Prior Year Condition	As Reported at September 30, 2005	Status as of September 30, 2006
Non-compliance with the *Federal Information Security Management Act*	**Instance of non-compliance:** CBP was not in substantial compliance with FISMA. FISMA requires agencies and departments to: 1) provide information security for the systems that support the operations under their control; 2) develop, document and implement an organization-wide information security program; 3) develop and maintain information security policies, procedures and control techniques; 4) provide security training and oversee personnel with significant responsibilities for information security; 5) assist senior officials concerning their security responsibilities; and 6) ensure the organization has sufficient trained personnel to comply with FISMA requirements.	**Continue reporting as an instance of non-compliance:** Although improvements were made, CBP did not substantially comply with all categories of FISMA. See compliance finding letter E.
Non-compliance with the *Federal Financial Management Improvement Act of 1996*	**Instance of non-compliance:** CBP was not in substantial compliance with FFMIA, which requires that an agency's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. We noted instances of non-compliance with FFMIA in relation to Federal financial management systems requirements, the United States Government Standard General Ledger at the transaction level, and Federal accounting standards	**Continue reporting as an instance of non-compliance:** Although improvements were made, CBP did not substantially comply with all categories of FFMIA. See compliance finding letter F.

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

U.S. Customs and Border Protection

NOV 1 5 2006

TO: Inspector General
Department of Homeland Security

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

SUBJECT: Management Response – Independent Auditor's Report on U.S. Customs and Border Protection's Fiscal Year 2006 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 2006 Financial Statements included in our Fiscal Year 2006 Performance and Accountability Report.

We have reviewed and concur with the 2 material weaknesses, the 2 reportable conditions, and the 3 instances of non-compliance with laws and regulations contained in the auditor's report. Corrective action plans outlining CBP's strategy to correct these conditions will be prepared and provided to the Office of Financial Management, U.S. Department of Homeland Security. It should be noted, that while some of these conditions may take several years to correct, CBP will continue to work to resolve all auditor identified weaknesses.

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

Eugene Schied

Acronyms

A&M	Air and Marine
ABCI	Arizona Border Control Initiative
ACE	Automated Commercial Environment
ACS	Automated Commercial System
APIS	Advance Passenger Information System
ATS	Automated Targeting System
BW	Bonded Warehouses
CBP	U.S. Customs and Border Protection
CFO	Chief Financial Officer
CM	Compliance Measurement
CSI	Container Security Initiative
C-TPAT	Customs Trade Partnership Against Terrorism
DHS	Department of Homeland Security
DoD	Department of Defense
DOL	Department of Labor
EEO	Equal Employment Opportunity
ER	Expedited Removal
FAIR	Federal Activities Inventory Reform
FAST	Free and Secure Trade
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FRPP	Federal Real Property Program
FTZ	Foreign Trade Zones
FY	Fiscal Year
FYHSP	Future Year Homeland Security Program
GAO	Government Accountability Office
GPRA	Government Performance and Results Act
GSA	General Services Administration
HRM	Human Resources Management
IA	Internal Affairs
ICE	Immigration and Customs Enforcement
INA	Office of International Affairs
IPIA	Improper Payments Information Act of 2002
ITDS	International Trade Data System
IT	Information Technology
JFMIP	Joint Financial Management Improvement Program
MID	Management Inspection Division
NASD	National Analysis Specialist Division
NFR	Notice of Finding and Recommendation
NGB	National Guard Bureau
NII	Non-Intrusive Inspection
NIST	National Institute of Standards and Technology
NLETS	National Law Enforcement Telecommunication System
NPRM	Notice of Proposed Rule Making
NTC	National Targeting Center
OASISS	Operation Against Smugglers Initiative on Safety and Security
OAT	Office of Anti-Terrorism
OBP	Office of Border Patrol

OCA	Office of Congressional Affairs
OCC	Office of Chief Counsel
OF	Office of Finance
OFO	Office of Field Operations
OIG	Office of Inspector General
OINT	Office of Intelligence
OIT	Office of Information and Technology
OMB	Office of Management and Budget
OPA	Office of Public Affairs
OPP	Office of Policy and Planning
OR&R	Office of Regulations and Rulings
OST	Office of Strategic Trade
OTD	Office of Training and Development
OTM	Other Than Mexican
OTR	Office of Trade Relations
PAR	Performance and Accountability Report
PART	Performance Assessment Rating Tool
PMA	President’s Management Agenda
POE	Port of Entry
POEs	Ports of Entry
PP&E	Property, Plant and Equipment
RPM	Radiation Portal Monitor
RFID	Radio Frequency Identification
RSI	Required Supplementary Information
SAP	Systems, Applications, and Products
SBI	Secure Border Initiative
SENTRI	Secure Electronic Network for Traveler Rapid Inspection
SFFAS	Statement of Federal Financial Accounting Standards
SIP	Self-Inspection Program
SIRS	Self-Inspection Reporting System
SOW	Statement of Work
TECS	Treasury Enforcement Communication System
UA	Unmanned Aircraft
UAS	Unmanned Aircraft System
U.S.	United States
USCG	U.S. Coast Guard
USDA	U.S. Department of Agriculture
US-VISIT	U.S. Visitor and Immigrant Status Indicator Technology
WCO	World Customs Organization
WMD	Weapons of Mass Destruction
WME	Weapons of Mass Effect

This page intentionally left blank.

EXHIBIT II

D. Entry Process

1. Compliance Measurement Program

Background:

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

Condition:

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

- CM Coordinators' guidance related to sampling, review procedures, and documentation requirements is ineffective related to the monthly review of CM results completed by import specialists. During FY 2006, the Assistant Commissioner, Office of Field Operations issued a memorandum addressing changes to the Compliance Measurement (CM) program. The memorandum included an updated Appendix B listing the responsibilities of various personnel within the CM process. Section 2.6 states that "On a monthly basis, the CM Coordinator will randomly sample the CM reviews completed by Import Specialists to verify that the reviews have been done in accordance with the procedures set forth herein." However, there is a weakness in the guidance in that it does not provide the CM Coordinators with a sampling methodology, required review procedures, and related documentation requirements for the monthly review;

- Non-compliance with CM guidelines requiring periodic reviews at the port level. During FY 2006, we noted that six CM Coordinators were not performing the monthly reviews of CM reviews performed by the import specialists as required in the memorandum discussed above. At an additional six sites, there was no documentation to confirm performance of the monthly reviews. In addition, we noted that at three sites, the Compliance Review Tracking Quarterly (CRTQ) function was used to follow-up on Entry Summary CM selectivity hits; however, the CRTQ was not run weekly as required by Appendix B. During the review of entries identified on the various monitoring reports, KPMG noted that at eleven sites selected for testing were not inputting Import Specialist Discrepancy Adjustment (ISDA) remarks in compliance with Directives 3550-074A (dated May 14, 2004) and 3550-074B (dated September 15, 2006) and Appendix B. KPMG noted three different types of discrepancies from the guidelines noted above: ISDA remarks were input beyond the 120 day requirement at eleven ports, the compliance field was not marked at two ports, and the ISDA remarks did not provide sufficient detail at five ports;

- The National Analysis Specialist Division (NASD) port audits were no longer performed during FY 2006. In prior years, NASD performed port audits to identify errors during the performance of a CM review. In fiscal year 2005, KPMG recommended using a risk-based approach to select which ports to audit. In addition, we recommended compiling the results of the port audits to identify potential trends or weaknesses on a national level, and to calculate a revenue impact for the discrepancies noted. During FY 2006, CBP suspended the

This page intentionally left blank.

This page intentionally left blank.

U.S. Customs and
Border Protection

Additional Information and Copies

To obtain additional copies of this report,
visit the U.S. Customs and Border Protection
public Website at http://www.cbp.gov