Performance and Accountability Report

Fiscal Year 2011

U.S. Customs and Border Protection

About This Report

This is the U.S. Customs and Border Protection (CBP) Fiscal Year 2011 Performance and Accountability Report (PAR). The PAR is a comprehensive report that combines CBP's Annual Performance Report with its audited financial statements, assurances on internal control, accountability reporting and agency assessments. CBP's PAR provides program, financial, and performance information that enables Congress and the public to assess the performance of the agency as it relates to the CBP mission.

CBP is America's frontline border agency. We guard the boundaries of freedom and stand between the good citizens of our Nation and those who want to do us harm. The CBP PAR discusses the agency's strategic goals and objectives and provides a comparison of agency performance targets to actual performance results. The CBP PAR satisfies the reporting requirements of the Reports Consolidation Act of 2000 (Pub. L. No. 106-531), Government Performance and Results Act (Public Law No. 103-62), Chief Financial Officers Act of 1990 (Public Law No. 101-576), Office of Management and Budget (OMB) Circular No. A-136, ***Financial Reporting Requirement***, dated October 27, 2011, and other financial management statutes and reports.

The CBP PAR provides a summary of the agency's major mission programs, including strategies. Additional information related to the specific programs, initiatives, tools and resources used to achieve agency objectives can be found in the body of the Department of Homeland Security (DHS) Congressional Budget Justification for the President's Budget, which details information by DHS component.

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Commissioner's Message

I am pleased to present the Fiscal Year (FY) 2011 Performance and Accountability Report (PAR) for U.S. Customs and Border Protection (CBP).

CBP's priority mission is to keep terrorists and weapons of terror from entering the United States. As the Nation's border agency whose personnel are stationed at and between our Nation's ports of entry, CBP is responsible for managing, securing, and controlling our borders. In FY 2011, the men and women of CBP made tremendous progress in securing the border and facilitating legitimate trade and travel through targeted operations, enhanced partnerships and unprecedented deployment of personnel, technology, and infrastructure along the border.

CBP's accomplishments have made important contributions to our Nation's homeland security and economic vitality by protecting the United States and the American people from the entry of dangerous goods and people. Through the use of technology, personnel, and resources, CBP has made significant progress in border security efforts, including an historic decline in apprehensions. CBP also increased the number of Border Patrol agents to 21,444, which is an increase of 886 agents since FY 2010.

In addition, CBP employed 20,500 CBP officers in FY 2011 with additional officers expected to be on board by the end of the calendar year. Technology assets, including mobile surveillance units, thermal-imaging systems, and large-and-small scale non-intrusive inspection equipment have improved the targeting of high-risk travelers and cargo, thus reducing traffic time.

CBP also seized a record amount of drugs at and beyond our borders. The Unmanned Aircraft System program contributed to the amount of narcotics seized and the apprehension of individuals involved in illicit activities. Providing security along the northern, southern, and coastal borders requires integration with our international, Federal, state, local, and tribal partners in order to leverage and focus joint resources. In FY 2011, CBP increased its collaboration with Federal, state, local, tribal, and international partners to combat individuals and criminal organizations that pose a threat to communities on both sides of the border.

As a result of the FY 2011 Financial Statement Audit, CBP received an unqualified opinion on its full set of financial statements. This outstanding accomplishment demonstrates CBP's discipline and accountability in the execution of its fiscal responsibilities as a steward of CBP programs and reflects six years of an unqualified opinion for CBP.

The CBP FY 2011 PAR includes financial and performance information that is reliable and complete. PAR addresses CBP's compliance with financial management requirements and identifies some areas for improvement.

CBP evaluated our management controls and financial management systems in compliance with the Federal Managers' Financial Integrity Act of 1982 and our internal controls over financial reporting as required by the Department of Homeland Security Financial Accountability Act.

Commissioner's Message

As a result of CBP's self-assessment, one material weakness was identified for FY 2011, two instances of nonconformance, and three deficiencies that are carryovers from previous years.

While current CBP financial management systems do not substantially comply with Federal financial management systems requirements and the U.S. Government Standards General Ledger at the transaction level, CBP is modernizing its financial systems.

KPMG LLP conducted an independent audit of CBP's FY 2011 Financial Statement. CBP has reduced its material weaknesses since FY 2009, including those cited in the Financial Section of this report, which support those identified through CBP's self-assertion process.

CBP will work to improve deficiencies identified in PAR 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.

I am proud to be a CBP employee, working alongside the men and women who make up this organization. CBP employees are dedicated to the mission of the agency and to the greater good of helping to secure our homeland and its citizens. Our goal remains to provide timely, reliable, and useful financial information to Congress and the American public and to enable managers across CBP to make sound business decisions that further the agency's critical mission.

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

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Management's Discussion and Analysis

Overview of CBP

Mission

CBP is the frontline border security agency within 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. CBP prevents narcotics, agricultural pests, and smuggled goods from entering the country and also identifies and arrests individuals with outstanding criminal warrants. CBP leverages its enforcement and intelligence-gathering capabilities to execute the mission of border and airspace security. As of the end of Fiscal Year 2011, 59,820 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. CBP's mission is vitally important to the protection of the American people and the national economy.

Core Values

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

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

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

Fiscal Year 2011 Statistical Highlights

- Ports of entry: 329
- Pre-clearance locations: 15
- Border Patrol sectors: 20
- Air units: 46 (1 Training location and 3 Radar/Communications locations)
- Marine units: 71 (2 Training locations and 1 Maintenance location)
- Trade entries processed: 29.5 million
- Total revenue collected: $37.2 billion (includes custodial and entity revenue)
- Illegal narcotics seized: 3.1 million pounds (represents narcotics held by CBP until disposal or destruction)

- Illegal alien apprehensions between the ports of entry: 340,252
- Inadmissible aliens interdicted at the ports of entry: 211,483
- Pedestrians and passengers processed: 340 million
- Conveyances processed: over 104 million
- Aircraft passengers processed: over 94 million
- Prohibited plant and animal materials seized at the ports of entry: 1,682,881
- Agricultural plant and pest intercepted at the ports of entry: 177,299

A CBP officer seizes illegal substances concealed in a vehicle.

Drug Seizure Statistics

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

- Number of pounds of cocaine seized: 224,727
- Number of pounds of heroin seized: 4,176
- Number of pounds of marijuana seized: 4,567,812
- Number of pounds of methamphetamine seized: 11,064

Major Mission Programs and Strategies

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

The American Recovery and Reinvestment Act of 2009

During Fiscal Year (FY) 2009, CBP received a supplemental appropriation under the American Recovery and Reinvestment Act (ARRA) of 2009, Public Law 111-5. ARRA made $680 million available to CBP for infrastructure investment. ARRA allocated $100 million for the procurement and deployment of non-intrusive inspection (NII) systems; $60 million for the upgrade of tactical communications equipment and radios; $100 million for the expedited development and deployment of border security technology on the southwest border ($50 million of which was allocated for additional Tactical Communication enhancements); and $420 million for the planning, management, design, alteration and construction of CBP-owned border Land Ports of Entry (LPOE).

Land Ports of Entry

CBP identified and prioritized repairs, enhancements and replacement projects needed to modernize northern and southern border ports to sustain evolving operational requirements. Current facilities were designed to meet earlier mission requirements and have site configurations that restrict the flow of traffic, or pose constraints that limit the ability to deploy the optimal complement of inspection technology. CBP received $420 million in ARRA funds to address modernization needs for CBP's LPOEs. These funds are targeted to replace 31 of the 41 LPOEs currently in CBP's inventory. CBP's strategy focuses on increasing the quality of facility performance and facility-related services. The ultimate goal is to improve these critical assets to better meet CBP's mission to secure the Nation's border while facilitating legitimate travel and trade.

Non-Intrusive Inspection

The NII and Radiation Detection Technology program is a critically important component of the CBP layered enforcement strategy. NII technology allows CBP to scan a larger portion of the stream of inbound traffic for the presence of contraband in less time while facilitating legitimate trade and travel. These tools provide CBP with a significant capability to detect and interdict terrorist weapons and other contraband at and in between our Ports of Entry (POE). At the end of FY 2011, CBP had a total of 299 large-scale NII imaging systems deployed to our Nation's air, land, and seaports of entry and to Border Patrol checkpoints. These systems include large-scale X-ray and Gamma-ray imaging systems, as well as a variety of small-scale, portable, and hand-held technologies. CBP has moved quickly to deploy nuclear and radiological detection equipment. Through the end of FY 2011, CBP has acquired and deployed 1,465 Radiation Portal Monitors (RPM), 2,437 Radiation Isotope Identification Devices (RIID) and 24,418 Personal Radiation Detectors (PRD) nationwide.

CBP uses mobile VACIS to inspect vehicle contents at the POEs.

CBP officers employ risk analysis, targeting information and/or officer discretion to scan conveyances for the presence of contraband with NII equipment. If an anomaly is discovered, a more intensive inspection is conducted. Without NII systems, cargo would require a more time-consuming manual examination that could negatively impact the expedited flow of commerce (e.g., NII Technology can image a conveyance in approximately 3 minutes, while a manual inspection can average over several hours). This equipment is effective at identifying a variety of illegal activity and contraband, including human smuggling, narcotics, weapons, and explosives.

CBP uses RPMs to scan cargo containers for radioactive materials as they pass through vehicle-processing lanes at land border ports, as they are off-loaded from ships at seaports, and at select airports and all express consignment/mail courier facilities. Officers also use PRDs and RIIDs to scan for and identify signs of radioactive materials as they perform inspections on smaller vehicles, private aircraft, and shipments. Special high-tech tools such as density meters and fiber-optic scopes allow officers to peer inside suspicious containers. Finally, if necessary, containers are unloaded and opened for a more intensive manual inspection.

National Targeting Centers

National Targeting Center – Passenger

The National Targeting Center – Passenger (NTC-P) was created to be the single point of reference for CBP anti-terrorism efforts. NTC-P plays a vital role in the identification of individuals who pose a national security concern at POEs and Border Patrol checkpoints. While the vast majority of travelers and goods are legitimate, NTC-P is designed to carefully identify and examine those who may be involved in terrorism or its attendant concerns (e.g. money laundering, facilitation of unlawful travel, etc). The facility is staffed with both permanent and Temporary Duty (TDY) analysts, as well as several inter-agency liaisons to provide 24 hours, 7 days a week (24x7) tactical targeting and analytical research support for CBP anti-terrorism efforts. NTC-P uses numerous automated enforcement data processing systems which are focused on detecting and preventing terrorist access to the United States including the Automated Targeting System-Passenger (ATS-P) and the Targeting Framework. These systems allow NTC-P to screen passenger manifests and related information prior to arrival in the United States.

The mission outcomes for pre-departure targeting are to maximize the effectiveness of advanced technology, intelligence information, domestic and international partnerships, and well-trained human resources to effectively screen, review, identify and prioritize passengers and cargo across all international modes of transportation, inbound and outbound. This includes the following:

- ATS-Passenger Pre-Departure targeting;
- U.S. visa re-vetting;
- Outbound targeting;
- Supporting Immigration Advisory Program (IAP) teams;
- Enhancing ATS-P entity resolution and infrastructure capabilities and improving quality of commercial carrier-provided Passenger Name Record (PNR) data;
- Terrorist Watch list improvements in collaboration with DHS/National Counterterrorism Center (NCTC);

- Coordinating with the Department of State (DOS) and Immigration and Customs Enforcement (ICE) to automate vetting of U.S. non-immigrant visa applications before submission to Consular officers overseas; and,
- Implementing the National Targeting Strategy;
  - » *Create a unified NTC - establish a joint NTC facility;*
  - » *Expand all modes pre-departure targeting;*
  - » *Strengthen Container Security Initiative (CSI) targeting; and*
  - » *Strengthen Agriculture Bio Terrorism (Ag-Bio) attack resources targeting.*

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

National Targeting Center - Cargo

The National Targeting Center - Cargo (NTC-C) is a critical part of the CBP layered enforcement strategy. NTC-C supports CBP cargo-related activities by proactively targeting and coordinating examinations of high-risk cargo in all modes of transportation; provides high-quality research to the CSI, Secure Freight Initiative (SFI), domestic analytical units, and OGAs; and implements new proactive methodologies. NTC-C staff is comprised of CBP officers, import specialists, agriculture specialists, program managers, and CBP laboratories and scientific services scientists. NTC-C liaison staff represents the Food and Drug Administration, Department of Agriculture (USDA), Department of Commerce, ICE, and the Drug Enforcement Administration.

Key functions of the NTC-C are to identify companies and cargo linked to identified terrorists and criminals, create Memoranda of Information Received, The Enforcement Communication System (TECS) records, Automated Targeting System (ATS) user-defined rules, ATS notes, and Terrorist Screening Data Base (TSDB) nominations. NTC-C conducts user-defined queries for Weapons of Mass Destruction (WMD), Weapons of Mass Effect (WME), agro-terrorism, and bio-terrorism threats. NTC-C identifies shipments linked to terrorism, narcotics, and trade-based money laundering. Analysts conduct research on seized or detained documents from countries of interest relating to terrorism, organized crime, child endangerment, Intellectual Property Rights (IPR), and human smuggling to develop additional targets and make enforcement referrals to ICE.

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

In FY 2011, in response to the unsuccessful attempt to ship explosives to the United States from Yemen, NTC-C initiated the Air Cargo Advance Screening (ACAS) pilot program. The ACAS operation is staffed with both CBP and TSA targeting analysts who jointly target and mitigate air cargo identified as high risk before allowing it to be loaded onto an aircraft. Pre-departure targeting allows CBP to push U.S. borders outward by keeping high risk cargo off international conveyances destined to the United States. Modeling the Importer Security Filing in the air environment, ACAS enhances air cargo security by obtaining air manifests in advance from the North African and Middle Eastern regions, thereby increasing the availability and volume of data on air cargo received. The ACAS pilot program began on December 13, 2010 with electronic transmissions of key shipment data from the first ACAS air carrier, UPS. Federal Express began transmitting advance shipment data on February 24, 2011, DHL in March 2011, and TNT in May 2011. As the ACAS pilot program expands to include all sectors of the air cargo industry, CBP and TSA will continue to analyze the data collected and refine the pilot as needed. The results of the pilot program will guide future policy and operational approaches CBP and TSA will take to enhance the security of air cargo.

In FY 2011, NTC-C significantly expanded outbound targeting operations. In support of the DHS mandate to increase southbound validations of weapon shipments to Mexico, NTC-C is aggressively targeting outbound and in-transit shipments to Mexico. NTC-C coordinates with CBP ports to conduct examinations and with the CBP Mexico attaché to verify the legitimacy of the shipment and the anticipated arrival of the shipment by the Government of Mexico (GOM). NTC-C also reviews outbound and in-transit cargo destined to other high-risk countries, including shipments containing controlled chemicals, weapons, and dual-use equipment used in the production of WMD/WMEs.

NTC-C also has significantly expanded narcotics and precursor targeting. NTC-C identifies drug trends, conducts tactical post seizure analysis, and disseminates intelligence products to CBP, DHS, and OGAs. In addition to targeting for heroin, cocaine, and marijuana, the NTC-C narcotics unit also has nationwide responsibility for targeting precursor chemicals used for the production of methamphetamines, ecstasy, and other dangerous drugs. NTC-C is aggressively targeting shipments originating in or transiting Mexico for narcotics and precursor chemicals utilizing risk management principles.

In FY 2011, the NTC-C Agricultural/Biological Terrorism Countermeasures operation continued to increase efforts to identify and target shipments and subjects that pose potentially significant risks. NTC-C Agriculture Program Trade Liaisons staff collaborate with the Defense Intelligence Agency, USDA, and OGAs utilizing the Agricultural Resource Atlas (AgRA) data to identify entities who work with or store biological materials. Law enforcement, government, and commercial databases are used to expand upon the AgRA data to target entities with derogatory information that have the capability and knowledge to utilize biological materials for nefarious purposes.

Container Security Initiative

Maritime containerized shipping is a critical component of global trade because most of the world's manufactured goods are transported in maritime cargo containers. In the United States, almost half of incoming trade (by value) arrives by containers onboard ships. In FY 2011, more than 11.5 million cargo containers arrived on ships and were off-loaded at U.S. seaports.

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

In FY 2011, CBP officers conducted operations in 58 CSI ports overseas. During the year, CSI continued to transition CSI TDY personnel to permanent status and place resources at NTC-C to reduce the number of CBP officers deployed. CSI will continue to evaluate and adjust personnel levels at several CSI ports to achieve desired staffing levels.

The CBP Commissioner's intent for the CSI program in the next two fiscal years includes:

- Becoming a hybrid of different operational models based upon individual ports and host governments;
- Evaluating deployments and foreign footprints and aligning staffing based upon different operational models;
- Expanding remote targeting and central hubs in certain countries based upon the host country government's willingness to share information and transmit images; and
- Evaluate expanding the role of CSI personnel to promote and/or participate in other CBP programs or initiatives and operate under the "county team."

Trusted Trader Program

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

C-TPAT requires trade community participants to document and validate their supply chain security procedures in relation to the program's criteria. C-TPAT Supply Chain Security Specialists and C-TPAT participants jointly conduct validations of the supply chain security procedures. The validation process is essential to verifying the company's commitment to C-TPAT. As of September 30, 2011, C-TPAT has completed the validation of 2,863 companies.

The key outcome for expanding the trusted trader program (C-TPAT) includes the following:

- Identifying low-risk shipments (risk segmentation) to increase security and facilitate the lawful movement of goods;

- Implementing TSA and CBP initial strategy for a Joint Trusted Shipper Program for inbound international air cargo;
- Strategically increasing the number of C-TPAT participants over 5-7 years without compromising security standards;
- Improving efficiency and reducing redundancy with OGAs through information sharing and foreign validation activities;
- Strengthening scrutiny of future and current members; and,
- Linking various international industry partnership programs through Mutual Recognition.

Trusted Traveler Program

CBP's Trusted Traveler Programs include: NEXUS (a joint venture between Canadian and U.S. authorities); the Secure Electronic Network for Travelers Rapid Inspection (SENTRI); the Free and Secure Trade program (FAST); and Global Entry that use a common automated system to register program enrollees and perform automated identification and validation.

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

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

A commercial driver participating in the FAST program.

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

Currently, there are more than 1,134,090 members enrolled in the SENTRI, NEXUS, FAST, and GE programs. NEXUS, SENTRI and GE are currently being integrated. As part of this integration, United States Citizen & License Plate Reader SENTRI members and all NEXUS members have been extended GE benefits. This allows these other program members to utilize the GE kiosks and participate in the GE program.

As of July 12, 2011, new GE members are issued an RFID enabled GE card, which allows members to use the inbound NEXUS and SENTRI lanes at the land borders. For pre-existing GE members, a card can be requested through the members' Global Online Enrollment System account and by paying a $15 card issuance fee.

CBP and the United Kingdom (UK) have signed a joint statement stating the intention to develop a reciprocal trusted traveler arrangement. A pilot program is in a pre-launch phase. The Federal Register Notice (FRN) is also pending. CBP is working with the German Federal Police, under the guidance of the Federal Ministry of the Interior, to develop a trusted traveler arrangement. A pre-test pilot is under development, which will use secure emails to transmit applicant data for vetting and pass/fail messages.

CBP also continues to work with the Korean Government to develop a trusted traveler arrangement. The Korean Immigration Service is developing the technical requirements for them to support a joint program.

Admissibility Review Office

CBP's Admissibility Review Office (ARO) provides institutional knowledge and a consistent decision-making approach about admissibility and the exercise of discretion for inadmissible aliens under the Immigration and Nationality Act (INA). The ARO works extensively with the DOS and other agencies to determine whether inadmissible aliens can legally travel as non-immigrants with waivers. Each case requires an assessment of the alien's reason(s) for travel balanced with the seriousness of his/her ineligibility, weighed against any benefit or potential risk of harm to society if CBP admits the alien.

The ARO currently processes and adjudicates all waivers of inadmissibility that DOS consular officers recommend worldwide. The ARO decides all high profile "seat of government" non-immigrant waivers. It also processes and adjudicates all waiver applications submitted directly to CBP by eligible individual international travelers.

Fraudulent Document Analysis Unit

The Fraudulent Document Analysis Unit (FDAU) was established to act as a central location for the collection and analysis of fraudulent travel documents seized by CBP officers nationwide. The mission of the FDAU is to remove fraudulent travel documents from circulation and prevent the use of these documents by mala fide travelers attempting to enter the United States. Since its inception, the FDAU has received over 230,000 fraudulent documents. The FDAU receives documents that are counterfeit, altered, presented by impostors, or otherwise obtained by fraud or intended for fraudulent use. Documents presented by imposters make up the vast majority of the fraudulent documents received by the FDAU.

The FDAU manages the CBP Fraud Prevention Program (FPP). The goal of the FPP is to increase fraudulent document interceptions by expanding access to standardized training, high-quality document examination equipment, and current information on fraudulent document use and fraud trends. Two hundred and seven CBP officers have been designated as Fraud Prevention Officers (FPO) in 146 locations and have been tasked with sharing information regarding document fraud and fraud trends, creating reports on fraudulent document use, conducting document examination training, and working closely with headquarters on matters related to document examination and document fraud.

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

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

Advance Passenger Information System

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

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

Immigration Advisory Program

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

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

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

In FY 2011, there have been 2,889 "No Board" recommendations with an estimated CBP cost savings of $4,353,723. In May 2011, an MOU was signed with Japan to add IAP at Tokyo-Haneda airport. An IAP mobile team was deployed to Santo Domingo, Dominican Republic in August 2011. In September 2011, the Joint Security Program for Travelers was initiated at Panama, Tocumen International Airport and an IAP mobile team was deployed to Honduras.

National Agriculture Release Program

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

Analytical Management Systems Control Office

The Analytical Management Systems Control Office (AMSCO) develops innovative techniques to identify potential misconduct issues among frontline CBP personnel working in the air, land and sea environments. The AMSCO team applies sophisticated analytical techniques to sort massive amounts of data for transaction anomalies and patterns indicative of potentially corrupt behavior. With a focus on improving data quality and resolving systemic vulnerabilities, AMSCO performs national analysis of CBP operations using a multitude of private and public data sources. AMSCO detects unintended consequences resulting from deployment of new technologies and coordinates with partnering CBP offices to remedy the vulnerability. AMSCO serves as the mechanism for CBP to build a nationwide network of CBP Officers and Agents trained in the use of the analytical techniques. The program has developed and deployed data-driven technological tools to monitor and improve adherence to CBP policy which have improved accountability and mission engagement among frontline staff and supervisors.

Office of Technology Innovation and Acquisition

The Office of Technology Innovation and Acquisition (OTIA) was established in July, 2010, to ensure that all of CBP's applied technology efforts are properly focused on the mission and well integrated across the agency. In addition, OTIA is charged with strengthening CBP's expertise and effectiveness in acquisition and program management of contractor-delivered products and services. The new office is headed by an Assistant Commissioner who also serves as CBP's Component Acquisition Executive (CAE), providing oversight to all CBP acquisition programs to ensure they are managed in compliance with DHS and CBP regulations and policies.

OTIA manages the Border Security Fencing, Infrastructure Technology (BSFIT) appropriation, which provides for:

- Constructing and maintaining TI projects to include pedestrian and vehicle fencing, roads, tower sites, canal crossovers, among other similar efforts.
- Delivering detection and surveillance technology systems to gain situational awareness of activity at the border and provide law enforcement personnel tactical assistance in identifying and resolving illegal activity.
- Modernizing Tactical Communication Modernization Program (TACCOM) systems on the Southwest and Northern borders for improved operations and agent safety.
- Evaluating emerging technologies and innovative applications of existing technology for addressing a wider array border security needs.

In FY 2011, OTIA initiated the Arizona Technology Plan in response to the evaluation of the Secure Border Initiative-Network (SBI*net*) program. Guided by an Analysis of Alternatives, the United States Border Patrol (USBP) conducted an operational assessment of border surveillance technology in order to identify the appropriate mix of technologies required to gain situational awareness and manage the Arizona border area. The resultant Arizona technology investment plan is to acquire, deploy, and maintain a mix of agent-related technologies (e.g., night vision binoculars, etc.), mobile surveillance capabilities, and integrated fixed tower sensor systems, as well as upgraded Border Patrol command centers with enhanced communications and situational awareness displays.

In March 2011, CBP took possession of SBI*net* Block 1 system deployments in Tucson and Ajo, Arizona, gaining approximately 50 miles of situational awareness on the southwest border. The Block 1 configuration includes a deployment of towers with a suite of integrated day and night cameras, radars, Underground Sensors (UGS), Common Operating Picture (COP), and a communications package.

On the Northern Border, the Operation Integration Center (OIC), located in Detroit, Michigan, began operations in early 2011. The OIC provides a collaborative work area and communications capabilities for representatives of components of CBP, U.S. Coast Guard, and other DHS organizations, state and local law enforcement agencies, and Canadian law enforcement agencies. The integration of multiple information feeds significantly increases situational awareness, enhancing the ability for agents to plan, coordinate, and perform their missions in an operational environment.

In FY 2011, the TACCOM program completed P25 modernization in the Yuma and Tucson sectors and initiated construction in the Houlton Sector. In addition, CBP is implementing the Digital in Place project. This project will utilize funds formerly planned for the Laredo Focus Area Modernization to refresh all remaining CBP analog land mobile radio equipment nationwide to the digital P25 interoperability standard with Advanced Encryption Standard and Over the Air Re-keying capabilities. CBP is also moving forward with a series of technology demonstrators that would assess the potential for purchasing broadband services via third-party network service providers. Also, the Tactical Infrastructure program initiated primary pedestrian fence replacement projects in Nogales and Douglas, Arizona.

National Border Patrol Strategy

The diverse areas between the POE along our Nation's borders include urban cities, small towns, farms, and ranches, interspersed with miles of open space, deserts, waterways, forests, mountains and prairies. The Border Patrol's mission is to protect this vast area from threats of terrorism, exploitation by smugglers of humans, narcotics and other contraband, as well as threats of illegal entry into the United States.

CBP Border Patrol agent canvasses a remote area of the U.S. border.

FY 2011 marked the culmination of a remarkable period of development for the Border Patrol, when the guiding principles of the 2004 Border Patrol National Strategy were employed to substantially improve security of the border. The 2004 National Strategy allowed the Border Patrol to adapt to new demands of the post-9/11 mission and succeed in its new parent organization by directing its energies toward two primary outcomes. First, it organized into a more centralized and headquarters-driven organization so that new homeland-security threats could be addressed nationally. Second, it acted to acquire and deploy the right mix of unprecedented levels of personnel, technology and infrastructure to incrementally gain control of the borders.

Impressive gains each year from 2005 to 2010 were a testament to the fundamental ability to improve the Border Patrol's law enforcement posture through resource enhancements. By 2011, the strong resource platform allowed the Border Patrol to pivot toward refining its strategy to more effectively use existing resources, share information, adopt force multiplying partnerships with other law enforcement entities, and employ rapid response capabilities. Moving into 2012, efforts are underway to launch the 2012–2016 Border Patrol National Strategy, a matured approach to ever-changing border security dynamics, that transitions the organization from a resource-based strategy to a risk-based strategy.

Focused Border Security Enforcement Initiatives

Intelligence Driven Operations: Border Intelligence Centers

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

The BICs collect and analyze information through the use of databases, operational statistics, other agency intelligence reports and interviews with apprehended illegal aliens and smugglers as well as through the use of geospatial decision support tools. The products produced by the BICs support the implementation of coordinated border enforcement operations that result in more effective and efficient deployment of resources to address evolving threats and vulnerabilities. Actionable intelligence is forwarded to decision makers at all levels within CBP and is shared with DHS components and other law enforcement partners. These efforts support CBP's commitment to become a fully integrated intelligence-driven organization.

Integrated Border Enforcement Teams

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

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

Threat-Based Surge Operations

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

Consequence Delivery System

Substantial investment in personnel, technology, and infrastructure along the Southwest Border with Mexico during the past several years has facilitated reduction of illegal cross border activity to unprecedented levels. This reduction in traffic is now enabling the Border Patrol to manage, as opposed to simply react to, the volume of illegal traffic along our borders through application of appropriate consequences to illegal entrants.

The Consequence Delivery System (CDS) develops effective strategies to disrupt and degrade Transnational Criminal Organizations (TCO) and distribution networks through the use of administrative, criminal, and programmatic consequences. The CDS measures the consequences applied to persons illegally entering the country against defined alien classifications. CDS provides a process designed to uniquely evaluate each subject and apply the appropriate post-arrest consequences to that individual to break the smuggling cycle and end the subject's desire to attempt further illegal entry. The CDS is a means of standardizing the decision-making process regarding the application of consequences, and it gives the Border Patrol the ability to examine the efficiency and effectiveness of individual consequences.

Administrative

Immigration related administrative dispositions and charges are applied to every alien apprehended and progressively result in great limitations and restrictions on an alien's ability to enter the country. By applying the appropriate administrative consequence, aliens are documented and returned to their country of origin after a complete immigration record is established, through consequences such as Expedited Removal, a Notice to Appear before and Immigration Judge, or Reinstatement of a prior Order of Removal. Each of these administrative dispositions aid in establishing a basis for the future application of consequences and formally provides notice to the alien of additional criminal or programmatic consequences that may be applied if future violations occur.

Criminal

Criminal prosecution is the traditional means by which aliens are held responsible for their illegal actions. Using prosecution to deliver consequences for illegal cross-border activity is a critical element in the larger border-security strategy. Prosecutorial consequences, such as Streamline -- a whole-of-government initiative that applies a criminal charge for illegal entry (8 USC § 1325) to aliens who enter into the United States through any designated, targeted enforcement zone – ensure that our resources and those of our partners are used effectively and efficiently. Cooperation is key to the success of criminal prosecution, requiring the support of the U.S. Attorneys Office and other Federal, state, and local partners, such as the U.S. Magistrate, Federal judiciary, U.S. Marshals Service, the Office of Chief Counsel, Immigration and Customs Enforcement's Enforcement and Removal Operations, and the Executive Office of Immigration Review.

Programmatic

Through the use of several programmatic consequences, such as The Alien Transfer and Exit Program (ATEP) and the Operation Against Smugglers Initiative on Safety and Security (OASISS), CDS supports the concept of "breaking the smuggling cycle." In the ATEP program, apprehended aliens are transported out of an apprehending Border Patrol sector for their subsequent removal to Mexico through other sectors along the Southwest Border, thus disrupting Alien Smuggling Organizations (ASO). Additionally, the OASISS program is a cooperative effort with the Government of Mexico to prosecute members of ASOs in Mexico. Using innovative ways to break the smuggling cycle and focus resources by developing programs that achieve specific positive Border Security outcomes enhances our ability to affect the future behavior of aliens and ASOs alike. These programs are essential enhancements to the administrative and criminal consequences imposed.

Alliance to Combat Transnational Threats

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

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

- ACTT also applies the CDS to individuals involved in illegal cross border activity. The objective of the CDS is to provide a consequence for illegal activity by attaching administrative, criminal, and programmatic penalties to every violation utilizing a vast suite of law enforcement, legal, and administrative actions.
- At the field level, the unity of effort is overseen by the ACTT Unified Command (UC). The UC brings together the field level leaders of the DHS and State of Arizona agencies that are currently participating in ACTT. The

UC directs operational activities, including the development and implementation of overall mission objectives and strategies, and approves ordering and releasing of resources for more law enforcement and public safety agencies that have agreed to participate in ACTT.

- ACTT is currently conducting the following operations in the immediate border area, transit routes and final destination locations:
  - » *Coordination with the GOM;*
  - » *Focused border enforcement operations — at and between the POEs;*
  - » *Defense in depth — including checkpoints and other enforcement efforts along routes of egress;*
  - » *Coordinated and focused investigative efforts in both Tucson and Phoenix, Arizona;*
  - » *CDS;*
  - » *Mobile Response Team operations;*
  - » *Detailed deployment of additional Detection and Surveillance and technology; and*
  - » *Deployment of additional assets.*
- ACTT efforts have resulted in the following in the state of Arizona for FY 2011:
  - » *The seizure of more than 1.1 million pounds of marijuana, 5,000 pounds of cocaine, and 2,100 pounds of methamphetamine;*
  - » *The seizure of more than $12 million in undeclared U.S. currency and 192 weapons;*
  - » *Almost 8,000 aliens denied entry to the United States at Arizona POE due to criminal background or other disqualifying factors; and,*
  - » *Approximately 127,000 apprehensions between POEs.*
- In July 2010, the New Mexico-West Texas (NM/WTX) ACTT was established to target transnational criminal activity in an effort to reduce border violence. The NM/WTX ACTT member agencies have succeeded in disrupting the flow of weapons and money into Mexico, enabling more prosecutions domestically and abroad, expediting and formalizing information sharing with the GOM, and thwarting a wide variety of smuggling attempts by unifying efforts to target Transnational Criminal Organization (TCO) tactics and techniques. Success was achieved through close collaboration and well-planned, intelligence-driven operations and investigations.
  - » *NM/WTX ACTT will look forward to expanded collaboration with their new members, the U.S. Drug Enforcement Administration and the Texas Department of Public Safety, and our many strategic partners.*
  - » *NM/WTX ACTT intends to amplify efforts to identify and refer viable investigative targets to member agencies, facilitate and support interagency case coordination and training, work to leverage a continued decline in the narcotics-related murders in Mexico, intensify collaborative efforts with the GOM, and support and enhance efforts of strategic partners to deter, disrupt, and dismantle TCO criminal activities.*

- On June 26, 2011, Arizona (AZ) ACTT began a drawdown of detailed resources in AZ with the replacement of newly hired Border Patrol agents that reached their initial operation capability.
- Arrests decreased 42 percent in the Tucson Sector from FY10 to FY11 (from 212,202 to 123,285).
- FY 2012 operations will concentrate on maintaining the significant enforcement gains achieved in Tucson Sector, while reducing the number of externally detailed resources. Throughout FY 2010 and 2011, Tucson Sector received a significant amount of detailed agents and equipment. The maturation of the agents hired through the 2010 Supplemental Funding were in various training statuses by the end of FY 2011. All of these new agents will reach initial operating capability by the third quarter of FY 2012. Additional detection capability will be vastly improved with technology expected to be received in Arizona in FY 2012.
- DHS is currently implementing a corridor campaign concept in Southern California and South Texas in FY 2012, which would provide complete corridor unified enforcement coverage along the Southwest Border. Corridor Campaign Operations target criminal organizations involved in illegal cross border activity in order to debilitate the criminal elements' ability to operate in the border region. This will be accomplished through the unified and focused efforts of DHS assets currently supported by other Federal, state, local, and tribal law enforcement agencies.

Mexican Interior Repatriation Program

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

Caribbean Border Interagency Group

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

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

During FY 2011, CBIG partners noticed an increase of activity in the Mona Passage. The overall flow of illegal aliens attempting to enter through the Mona Channel increased by 83 percent (508 in FY 2010 versus 932 in FY 2011);

interceptions at sea increased by 50 percent (20 in FY 2010 versus 30 in FY 2011); landings increased by 76 percent (33 in FY 2010 versus 58 in FY 2011); apprehensions increased by 41 percent; (268 in FY 2010 versus 378 in FY 2011); and prosecutions, have increased by 84 percent (63 in FY 2010 versus 116 in FY 2011) as the overall flow of illegal aliens has increased.

Operation Stonegarden

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

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

Fiscal Years 2008, 2009, 2010, and 2011 program highlights include:

FY 2008

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

FY 2009

- $60 million appropriated to OPSG
- 38 states/territories eligible to participate in OPSG
- 88 counties or equivalent entities received grant awards

- $30 million supplemental appropriated to OPSG for southwest border states only
- 30 counties or equivalent entities received supplemental grant awards

FY 2010

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

FY 2011

- $54.9 million appropriated to OPSG
- 39 states/territories eligible to participate OPSG
- 114 counties or equivalent entities received grant award

Forward Operating Bases

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

As OBP continues to successfully conduct enforcement operations along the border, illegal migration activities and smuggler tactics shift in an attempt to identify and exploit vulnerabilities in border security measures, particularly in the more remote areas of the U.S. border. Strategically placed FOBs afford the Border Patrol a cost-effective, secure staging facility that allows agents to be deployed in proximity to the border, thus improving CBP's ability to rapidly respond to and counter these shifts in illicit cross border traffic.

Border Patrol Checkpoint Operations

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

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

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

During FY 2011, the following border enforcement successes were attributed to Border Patrol traffic checkpoint operations nationwide:

- 8,535 individuals arrested (2.51 percent of total Border Patrol apprehensions)
- 1,800 cases referred for prosecution
- 7,486 narcotic seizure events and incidents (45 percent of the total Border Patrol narcotic seizures)

Canine Enforcement Teams

CBP has the largest and most diverse law enforcement canine program in the United States. CBP canine officers and border patrol agents use specially trained detection canines to combat terrorist threats, and interdict concealed persons, currency, agriculture, narcotics, and other contraband at the POEs, traffic checkpoints, at international mail facilities, commercial carrier hubs, and along the border between the POEs. Some CBP detection canines are trained to perform Border Patrol Search and Rescue (SAR) missions. In FY 2008, Border Patrol initiated the Special Response Team (SRT) Patrol Canine program, training these teams for use in tactical high stress situations. These teams are also another tool in CBP's ongoing effort to control criminal activity along the border and to combat border violence to prevent assaults against agents and illegal aliens and control criminal activity along the border. At present there are 926 Border Patrol teams deployed along the Southwest Border.

CBP canines are trained to detect illegal immigrants and contraband.

These canine teams are assigned to POEs and Border Patrol sectors throughout the United States. Border Patrol has also organized a canine/horse patrol unit which allows the canine to work alongside the handler riding on horseback. To meet both new and growing threats, the CBP Canine Program has trained and deployed canine teams in an array of specialized detection capabilities. CBP has two canine enforcement training facilities, located in Front Royal, VA, and El Paso, TX. In a collaborative effort between its operational and training components, CBP trained 365 canines in FY 2011, with 39 of those being trained for the GOM.

Expedited Removal Program

A key element of CBP's ongoing effort to deter illegal entry is the implementation and expansion of the Expedited Removal (ER) program to all Border Patrol sectors. ER is a removal process that requires mandatory detention of select classes of illegal aliens who can be removed from the United States without an immigration hearing. The ER process also has built-in provisions to address aliens who believe they have a claim to credible fear. An alien who claims credible fear is interviewed by an asylum officer who determines whether or not the alien has a bona fide claim. If a claim is determined to be valid, the alien is not removed from the United States under the provisions of the ER program.

The program was expanded to include illegal aliens apprehended by Border Patrol on the southwest border and later extended to include apprehensions on the northern border. This includes illegal aliens who are present in the United States without having been admitted or paroled following inspection by a CBP officer at a designated POE and within 100 miles of the U.S. border. It also includes those who are unable to establish their physical presence in the United States for the two-week period before the date of encounter.

In the more than three years since the announcement of the end of "catch and release," the ER program has become a routine way of doing business. As of September 30, 2009, all aliens apprehended along the southwest and northern borders who are subject to detention pending removal and are otherwise ineligible for release from custody under U.S. Immigration law are now being detained for removal utilizing the ER program if the alien meets the guidelines. There are a few exceptions based on humanitarian reasons, but these cases are reviewed on a case-by-case basis. In FY 2011, the Border Patrol apprehended 46,997 OTM aliens at the southwest border, 2,978 along the northern border, and 4,123 on the coastal border, of which all of those subject to removal were detained.

International Liaison Unit

The mission of the International Liaison Unit (ILU) is to create and maintain positive working relationships and foster alliances with foreign counterparts to increase border security. The alliances established by the ILU maintain open communications and mutual respect with foreign and domestic law enforcement counterparts. Previously named the Mexican Liaison Unit (MLU), which started in El Centro, CA the MLU was reorganized in FY 2008 as the ILU to standardize national policies and procedures for international liaison. Today, the ILU is operational in all Southwest Border Patrol sectors and has dedicated manpower resources of approximately 55 agents, with a coordinator in Washington, DC, and one coordinator in each of the sectors participating in the program. Their success was the direct result of relationships formed with Mexican authorities in Federal, state, and local law enforcement having the common goal of border safety and security.

The ILU strategic goals are as follows:

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

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

The ILU's established partnerships have helped pave the way for programs like the Border Violence Protocols program, formed in an effort to reduce and provide a response to increased violence in the immediate border area along the southwest border, and the OASISS. OASISS was a product of the United States-Mexico agreement to establish a bilateral, standardized prosecution program. The OASISS program was developed to address the increasing amount of alien smugglers across the Southwest border. The program allows for alien smugglers apprehended in the United States to be prosecuted by the GOM. This program has been very effective in areas along the Southwest Border that are affected by guidelines that make it difficult to prosecute certain alien smuggling cases. In FY 2011, 489 OASISS cases were generated, with 516 principals accepted for prosecution by the GOM.

Enforcement Information Technology Advances

COMPSTAT

USBP has implemented COMPSTAT or BPERT (the Border Patrol Enterprise Reporting Tool), a "comparative statistics" application created to support Border Patrol field and headquarters personnel by providing enterprise-wide data in a flexible, robust, and user-friendly reporting tool. The comparison of enforcement statistics that shows changes in activity has always been used throughout the Border Patrol to continuously adjust operations. COMPSTAT is a tool that assists the process of making operational adjustments more efficient by providing actual enforcement statistics to field commanders and headquarters staff in a usable format, as well as an "available on demand" fashion.

COMPSTAT is a desktop accessed system that provides timely statistical reports containing a compilation of data from multiple systems used within Border Patrol, including Enforcement Case Tracking (e3 Processing), the Border Patrol Enforcement Tracking System (BPETS), and Intelligent Computer Assisted Detection (ICAD), and display the results in a usable and understandable format. Dozens of pre-formatted reports are available in COMPSTAT. These reports allow users to enter a limited number of parameters and compile data for a specific sector or station as well as a specific date range. Comparisons can also be viewed in order to see changes in activity levels for different time periods. Data provided by the COMPSTAT application will provide valuable operational and tactical information for field analysis. Additionally, a Headquarter (HQ) COMPSTAT module was added to the application for Headquarters and Sector Staff to have visibility into a higher, more strategic level of reporting functionality. COMPSTAT is currently available to all OBP sectors and stations.

e3 Prosecutions

e3 is a web-based application. The deployment of e3 technology further enhances the ability of tactical field commanders to make informed and operationally effective decisions. e3 Prosecutions serves as a central repository to capture information related to the day-to-day processes by which criminal prosecution activities are identified, assigned, performed, managed, scheduled, and measured. The information is used to analyze effectiveness and efficiency as it relates to the overall mission of securing the Nation's borders.

Within general guidance from the DOJ, each U.S. Attorney's Office has its own priorities, and prosecutorial guidelines. e3 Prosecutions is a web-based application with the flexibility to adapt to local procedures and regulations as it relates to the form and function of collecting, submitting, and reporting of data, legal articulation, and court documents associated with disparate court locations. e3 Prosecutions has ample depth to collect, manage and report activities related to cases handled utilizing administrative resolutions or referred to outside agencies. e3 Prosecutions allow for electronically submitting and exchanging prosecution case data between other federal agencies. This establishes a partnership for efficient parallel missions by eliminating redundant manual data collection. e3 Prosecutions was also developed to manually capture and subsequently update critical data locally during systems failures for timely submission to the U.S. Attorney and the Judiciary.

Enterprise Geospatial Information Services

The Enterprise Geospatial Information Services (eGIS) web-based mapping application provides CBP Personnel with the ability to view and analyze agency-specific data using any web-enabled computer on CBPnet. eGIS is an enterprise-wide, centrally-managed and highly-distributable system supporting operations and data from all major CBP offices. By integrating data from multiple, stand-alone CBP systems, eGIS allows aggregated information (e.g. border activities, resources, intelligence) to be visualized and analyzed in previously unrealized ways. eGIS also provides a flexible mechanism to more efficiently and accurately share information across CBP by publishing spatial data services that can be accessed in other applications and allowing user-customized data extraction. In FY 2012, eGIS will be migrated to a Silverlight platform which will further enhance application speed and functionality for all CBP users.

Intelligent Computer Assisted Detection

The ICAD application supports real time tracking of OBP's covert UGS network and monitors agent dispatch, safety and operational status.

ICAD allows Border Patrol Supervisors and dispatchers to monitor, in real-time, the location, status, and activity type of each agent in their area of responsibility. The system provides audible and visual alerts to potential dangers an agent may face while on-duty. Supervisors and leadership are able to determine exactly how and where resources have deployed or moved throughout the workday and be aware of various situations that assets have encountered.

ICAD maintains a full life cycle record of UGS. Since 2011, all sensor acquisitions, transfers and deployments are being tracked providing added value to activation and alarm histories. ICAD processes UGS detections based on user-defined rules and promotes significant events as alarms. Sensor response and disposition are documented allowing users to analyze sensor activations over time.

Sensor alarms and tickets can be viewed from within ICAD or within the eGIS web-based map viewer. In 2012, a new web-based module of ICAD4 will allow users and Operation Centers to view sensor alarms from multiple stations and sectors in an easy to use, user-configurable interface.

Radiological and Nuclear Detection/Non Intrusive Inspection Program

The mission of the Radiological and Nuclear Detection/NII (RADNUC/NII) Program encompasses a variety of technologies. The RADNUC program consists of any piece of equipment that enables an agent to scan, detect and identify any radiological/nuclear material concealed within an object. The NII Program encompasses equipment that utilizes various x-ray technologies to locate concealed narcotics, guns, explosives, money and stowaways.

During FY11, OBP substantially increased its radiological and nuclear threat detection capabilities by increasing the number of fielded PRDs by 2,479. This added capability significantly enhanced the detection capabilities of the field agents.

OBP also deployed 19 Z-Backscatter Fords mobile screening devices and deployed them at various locations in Texas, Arizona, New Mexico, New York and California for a total of 42 Large Scale NII systems deployed. These units provide the agents an enhanced probable cause and consent search capability at traffic checkpoints to more effectively and efficiently reveal concealed contraband in passenger and commercial vehicles.

Mobile Surveillance Systems

OBP has 41 Mobile Surveillance System (MSS) units deployed along the Northern and Southern Border. The combination of electronic surveillance sensors, when applied in concert with appropriate tactics, techniques and procedures, enhance the ability of CBP to detect, identify, classify, and track persons attempting to enter the

United States by other than legal or lawfully approved avenues of approach and/or entry. The deployment of this equipment helped CBP meet its additional goal of increasing border protection capabilities within its allotted manpower. Future procurements for additional MSS units are underway for FY 2012.

Mobile Processing Center

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

Border Safety Initiative

The Border Safety Initiative (BSI) was initiated in June of 1998, building on the longstanding public safety and humanitarian measures practiced by the USBP. The primary objective of the BSI is the reduction of injuries and prevention of deaths along the southwest border region. Over the past several years, unscrupulous alien smugglers have moved migrants into more remote areas with hazardous terrain and extreme conditions. In particular, the BSI is intended to inform potential migrants of the hazards of crossing the border illegally and to respond to those who are in a life-threatening situation. Through the BSI initiative, USBP works closely with the government of Mexico to discourage illegal crossings and to identify those who have perished in the desolate border terrain. In FY 2011 there were 485 incidents resulting in 1,070 rescues.

U.S. Visitor and Immigrant Status Indicator Technology

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. During FY 2008, CBP began deployment of 10 fingerprint scanners to primary POEs. US-VISIT's biometric information thwarts 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 help determine whether someone has remained in the country longer than authorized. This system interacts with existing criminal databases that identify people with criminal histories and those who may be linked to terrorist activities.

Capacity Building

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

CBP supports the World Customs Organization's (WCO) Framework of Standards to Secure and Facilitate Trade (SAFE) by sharing best practices and implementing training modules to protect the global supply chain from the threat of terrorism. To this end, CBP participated in the WCO Policy Commission and Council Sessions (June 2011) and ensured successful integration of U.S. 10+2 elements in the WCO SAFE Framework of Standards to Secure and Facilitate Global Trade. This integration will provide authoritative global guidance on supply chain security to reflect contemporary practices in line with those of the United States.

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

To address the identified vulnerabilities, CBP has established joint partnerships with international organizations, federal government agencies, and other foreign partners. Funding for these programs is provided by a number of entities including the International Law Enforcement Academy, DOS's Bureau of International Security and Nonproliferation, U.S. Agency for International Development, DOD, DOE, and the Defense Threat Reduction Agency. During FY 2011, CBP provided 246 capacity building sessions for foreign partners including 19 courses at the International Law Enforcement Academy and provided capacity building support in over 75 countries.

Mexico Initiatives

CBP is heavily involved in a number of high-profile initiatives with the GOM, such as; the Bilateral Strategic Plan, Border Violence Protocols, Joint Targeting Initiative and the Merida Initiative. The most prominent of these has been the Mexico Merida Initiative, a multi-year assistance plan that has provided over $1.9 Million in U.S. Government funding during FY08, 09 and 10 to bolster customs and law enforcement infrastructure in Mexico. CBP has partnered with other agencies on southbound border initiatives focusing on bulk cash and weapons smuggling into Mexico to help curtail the negative impact of these and other illicit activities.

Implementation of the CBP Trade Strategy

The CBP Trade Strategy is a framework for management of the agency's trade mission. In FY 2011, CBP implemented expanded performance measures based on the Trade Strategy. These measures will provide a more complete picture of how the various trade programs contribute to full implementation of the CBP Trade Strategy.

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

CBP has created a Re-Engineering Dumping "RED" Team composed of members of many different offices within CBP. This group is charged with developing an operational protocol to frame the import process for entries subject to AD/CVD from foreign places of manufacture through export and summary processes and then identify where and what are the threats, challenges, and vulnerabilities in each step of the process. The team focuses on transshipment, under-collections, the role of shell companies, and other gaps/vulnerabilities/challenges.

In FY 2011, CBP completed Textile Production Verification Team visits to nine countries to validate factory production and the accuracy of trade preference claims. A total of 165 factories were visited, with 36 either closed or unable to show production, and 45 that could not support their trade preference claims.

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

Importer Self-Assessment

Importer Self-Assessment (ISA) provides the opportunity for importers who have made a commitment of resources to assume the responsibility for self-monitoring their compliance in exchange for less intrusion by CBP. The primary objective of the program is for the company to maintain a high level of trade compliance through an open CBP-trade partnership and cooperative interchange of information and ideas. CBP currently has 225 importers participating in the ISA program, which represents approximately 23 percent of the total import value into the United States.

Advancing Import Safety

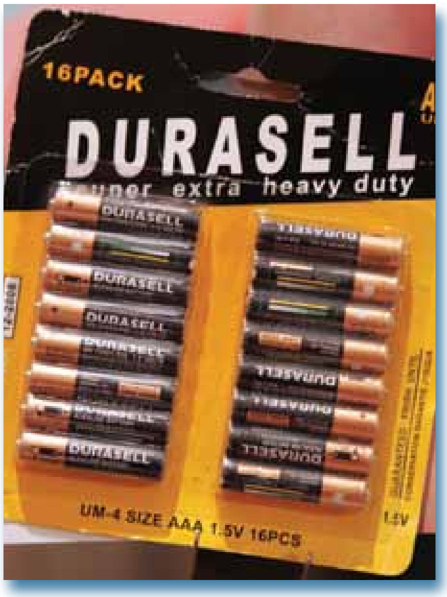
CBP continues to reiterate its commitment to Import Safety. One key achievement designed to improve interagency cooperation is the Border Interagency Executive Council (BIEC). The focus will be on achieving solutions that satisfy the needs of multiple agencies and provide the public with a unified "U.S. Government" approach to trade and import safety. Three BIEC working groups have been established to achieve this goal: Document Imaging System (DIS), information sharing, and partnership programs:

- The DIS technologies workgroup will be considering not only current capabilities but also potential use and impact on operation functions such as pre-arrival review, targeting, and supply chain compliance and certification. Simultaneously, CBP is undertaking efforts to develop and implement DIS, a system designed to provide the capability for trade participants to submit documents electronically for review by CBP and the OGAs.
- The Information Sharing workgroup will explore the feasibility of information sharing across agencies, accounting for regulations limiting how agencies can share data. Through greater information-sharing, the federal government can leverage inspection and regulatory expertise to facilitate admissibility determinations, provide advance notice of problems, and enhance enforcement capabilities.
- The Partnership Programs workgroup will explore options for a government-wide approach to partnership programs by reviewing existing partnership programs, analyzing best practices, and identifying obstacles to ensure an effective, consistent government approach to partnerships.

Protection of Intellectual Property Rights

Intellectual Property Rights (IPR) are a prominent enforcement priority for CBP, which is consistent with its mission to protect the economy, national security, and the health and safety of American citizens.

In FY 2011, CBP sustained its close work with the Intellectual Property Enforcement Coordinator (IPEC) to implement recommendations from the 2010 Joint Strategic Plan on Intellectual Property Enforcement. CBP conducted a joint IPR enforcement operation against counterfeit pharmaceuticals in the mail and express consignment environments with 11 Asian-Pacific Economic Cooperation member economies, resulting in numerous seizures from all participating economies and model enforcement practices that will help establish an international standard. In addition, CBP amended its Memorandum of Understanding with China Customs to increase information sharing capabilities for IPR enforcement that will help CBP and China Customs increase enforcement against counterfeit goods shipped between China and the United States.



Counterfeit products are a violation of intellectual property rights.

CBP continued its implementation of the agency's ambitious and ground breaking Five-Year IPR enforcement strategy which focuses on facilitation, enforcement, and deterrence. Integrated field training covering legal authorities, targeting, and policy was implemented at high-risk ports. In addition, an Admissibility Compliance Measurement program was initiated at International Mail Facilities to assess the level of compliance of imports, particularly with laws pertaining to IPR and pharmaceuticals. Referrals from Operation Network Raider, a joint operation with ICE and the FBI continued to result in over 30 felony convictions and 700 seizures of counterfeit Cisco network hardware manufactured in China.

Regulations and Rulings

OT's Regulations and Rulings (RR) provides essential technical legal support, advice and guidance for all of CBP's trade operations and much of CBP's border operations on a national basis. In its administrative decision and rulings role, RR provides binding uniform guidance with respect to the application of the customs and trade laws including tariff classification, valuation, marking, origin, import procedures and the navigation laws (including the Jones Act). By issuing final administrative decisions and advice on major penalty and other civil enforcement matters, RR ensures uniform and impartial application of enforcement laws while facilitating legitimate trade. In its regulatory document development role, RR is responsible for creating the legal and administrative framework that enables CBP's trade and border security operations and programs to be implemented successfully on a national basis. These legal tools often have major impact on the conduct of trade and on the ability of CBP to protect the homeland against unsafe persons and goods.

Advance Rulings have been identified by the Organization for Economic Cooperation and Development (OECD) in its 2011 Trade Policy Working Paper (No. 118) entitled, ***Trade Facilitation Indicators***, as "the most significant trade facilitation measure." In FY 2011, RR issued binding rulings and decisions on trade and revenue issues regarding tariff, trade and commercial facilitation requirements as well as responded to QUICS inquiries from ports and other inquiries from ports via other informal means on a variety of tariff and trade matters within prescribed time limits. In addition, RR provided technical assistance to the Account Executive pilot by defining the "electronics" industry and identifying associated HTS numbers and provided technical advice to the Center of Excellence and Expertise pilot (CEE) by defining the HTS numbers associated with the pharmaceutical industry, and RR prepared the Pharmaceutical Guidance Paper distributed through CEE to all ports.

In FY 2011, RR published and developed Federal Register Documents (Notices and Regulations) that effectuated trade and commercial requirements and modernization or partnership initiatives and implemented or expanded border security and traveler initiatives.

In late June 2011, President Obama directed the release of 30 million barrels of crude oil from the Strategic Petroleum Reserve (SPR).

Expeditious delivery of the large volume of SPR oil required the use of numerous vessels, including foreign-flagged vessels. All companies transporting SPR oil via foreign-flagged vessels require Jones Act waivers. RR led the multi-office Strategic Petroleum Reserve Communication Action Team (SPR CAT), comprised also of CBP members from OIIL, Counsel, OES, OPA, that handled all responses to request for Jones Act waivers to allow foreign-flagged vessels to distribute crude oil from the SPR within a thirty day window. The SPR CAT processed incoming Jones Act waiver requests, ensured their completeness, logged tracking data on each request, prepared memoranda, and maintained daily communication with its partners at the Department of Transportation and the Department of

Energy. The RR members of the SPR CAT processed 52 Jones Act waivers in less than 60 days to implement the Presidential order to release crude oil from the Strategic Petroleum Reserves by August 31^{st}.

Reducing CBP Exposure to Revenue Loss/Risk

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

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

In FY 2011, CBP will develop and finalize the AD/CVD Action Plan. This plan will call for the continued efforts of the RED Team as well as the creation of a 5 Year AD/CVD Strategy. CBP will also build on and publicize the very successful enforcement cases related AD/CVD such as the sentencing to 70 months and fines of over $7 Million for two individuals who were convicted of illegal transshipment of wire hangers.

Management by Account

In FY 2010, CBP identified several initiatives using account-based principles, known as Manage by Account (MBA). Several of these initiatives adopt a holistic view of account-based processing. These priorities represent a shift from a transactional-based management system to one that corporately addresses trade factors through facilitation and enforcement mechanisms. As part of this, CBP initiated two pilots to test the agency's MBA ability, resulting in greater facilitation and more effective enforcement. The Centers for Excellence and Expertise (CEEs) and Account Executive (AE) pilots were initiated in November 2010.

Modernizing Trade Policies and Processes

Other CBP initiatives underway include Role of the Broker and Simplified Processes, both of which focus on using modern tools to achieve efficiencies for the government and the trade community. The goals of these initiatives are to reduce administrative burdens and costs related to importing into the United States and bring anachronistic customs procedures into the 21st Century global trade environment. At the core of these initiatives is CBP's layered, risk segmentation approach employing numerous efforts in the pre-entry, entry, and post-release environments to prevent, address, and deter trade law violations.

International Trade Data System

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

- **Measure 1:** CBP will add data elements required by other agencies to the major import reporting messages (entry, and entry summary). The new records for the Customs and Trade Automated Interface Requirements (CATAIR) have been published on CBP.gov for review by the trade. CBP is developing the infrastructure to capture and store the Participating Government Agencies (PGA) specific data to be submitted by the trade initially in conjunction with the Automated Commercial Environment (ACE) Entry Summary. This foundational capability is projected for delivery in late Fall 2011.
- **Measure 2:** CBP will develop the capability to accept the transmission of imaged forms (such as pdf files), which may currently only be submitted on paper. CBP has delivered the capability for the trade to submit electronic image files of documents related to ACE Entry Summaries through the DIS.
- **Measure 3:** CBP will complete its plans related to the technical interoperability between CBP and other agencies' systems in order to allow the other agencies to continue with their plans for using ITDS and investing in automated systems to work with ACE/ITDS. CBP has documented the protocols for interfaces with PGA systems and has begun actively testing that interface with the first PGA who was ready to link systems. Additional PGAs are planning on utilizing the interface standards in FY 2012. Expansion of these protocols to encompass the data that will be provided by the trade through the PGA Message Set is planned for FY 2012.

Implementation of the National Annual Audit Plan

The FY 2011 National Annual Audit Plan was developed to provide the appropriate balance of audit support for trade security, facilitation, enforcement initiatives and import safety in keeping with the mission intent and goals of CBP. The plan was designed to address the CBP PTIs and included coverage of issues such as revenue protection, IPR, agriculture, import safety issues, AD/CVD, user fees, free trade agreements and supply chain security reviews of non-CTPAT member companies. Results for FY 2011 include:

- 384 audits completed (as of September 21, 2011);
- Approximately $81 million to date in recommended recoveries, including user fees, identified in all audits completed;
- Approximately $43.7 million in collections from current and prior audits issued, including penalties to date; and
- 289 audits in progress to date.

Looking Ahead

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

CBP Office of Air and Marine

CBP's Office of Air and Marine (OAM) secures the borders against terrorists, acts of terrorism, drug smuggling, and other illegal activity by operating air and marine branches at strategic locations along the borders. Multi-mission aircraft with advanced sensors and communication equipment provide powerful interdiction and mobile capabilities directly in support of detecting, identifying, and interdicting suspect conveyances, and apprehending suspect terrorists and smugglers. OAM maximizes the capabilities of air and marine assets through a cohesive joint air operations model for centralized command and control and a responsive and integrated control system for decentralized execution.

OAM works in partnerships with numerous stakeholders in performing its missions throughout the continental United States and the Western Hemisphere. This includes domestic operations at the borders; source, transit, and arrival zone operations; interior law enforcement support; and, support to other agencies. Truly cross-cutting within DHS and the Federal Government as a whole, the unique capabilities of OAM serve as both a stand-alone entity and as a force multiplier. To fulfill the CBP mission of border protection, the focus has expanded from a concentration on the southern border to a broader initiative that includes all of our Nation's borders.

OAM continues to strategically address threats and challenges by deploying additional air and marine assets, facilities, and personnel. OAM has identified new site requirements to expand its surveillance and interdiction coverage across the maritime approaches to the United States and is addressing personnel needs by hiring additional agents and staff. Concurrent with these efforts, OAM continues to build management and infrastructure systems that will effectively support field operations, including CBP agents and officers on the ground.

In FY 2009 Air and Marine continued to standardize and modernize its fleet in support of the Air and Marine Strategic Plan to recapitalize aging aviation and marine assets. Inventories of helicopters, fixed wing, unmanned aircraft systems, and interceptor vessels were expanded with new acquisitions and deliveries of prior year procurements. This multi-year investment in Air and Marine capital assets will help to support expanded border surveillance and maritime domain awareness.

Unmanned Aircraft System

Beginning in November 2004, CBP conducted test programs using unmanned aircraft for surveillance missions along the U.S.-Mexico border in Arizona. The test results were very positive and CBP initiated the Unmanned Aircraft System (UAS) program in 2005. The UAS provides an efficient and reliable supplement to existing detection and intelligence gathering technologies. Remotely-piloted aircraft have a significant advantage over manned aircraft with the capability to fly up to 20 operational hours. This technology has proven highly successful in supporting existing manned aircraft, maintaining current ground assets, and monitoring remote portions of the border that are often difficult to reach safely or are unable to accommodate infrastructure devices. Since the start of operations in 2004, UASs have been instrumental in the apprehension of undocumented aliens, the seizure of drugs, and the recovery of stolen vehicles. UASs have proven effective in locating subjects during hours of darkness and providing a situational awareness and officer safety capability that is unparalleled.

In March 2008, OAM hosted a Joint Maritime UAS demonstration at Tyndall Air Force Base (AFB), FL. The event was the culmination of more than a year's work to deploy and demonstrate the integration of a variant of the Predator B UAS within OAM and USCG maritime operations. The demonstration took place in the northern Gulf of Mexico and the Florida Straits and involved air and marine response assets from OAM and USCG. This Gulf Coast demonstration validated the usefulness of integrating a suite of sensors (radars, electro-optical, and Automated Identification System (AIS)) on a UAS and applying it in an operationally relevant environment. In July 2008 OAM hosted a Joint Requirements summit to determine the required capabilities of sea search radar for the maritime variant. During FY 2008, OAM also conducted test and evaluation flights along the northern borders of the United States. Of the ten UASs funded through FY 2011, seven have been inducted into inventory. It is anticipated that two additional systems will be delivered by December 2011, and the tenth by July 2012.

Of the seven operational UASs, three are assigned along the southwest border, based and operated from Fort Huachuca, Arizona, and two are assigned along the northern border, based and operated from Grand Forks AFB, North Dakota. The sixth UAS is a maritime variant and is currently based and operated from Cape Canaveral Air Force Station, Florida. The seventh aircraft, configured as a maritime variant, is based and operated from Naval Air Station Corpus Christi, Texas. The locations for the final three system locations have not been determined.

UASs will continue to be used in securing the border of the United States by providing strategic intelligence, surveillance, and interdiction support. CBP was the first Federal law enforcement agency to fly unmanned aircraft on a sustained basis, outside of restricted airspace, within the United States.

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

Land Border Integration

OFO is working to capitalize on the success of the WHTI investment by expanding innovative technologies and processes to provide further efficiencies in both security and facilitation at the land border. The comprehensive

Land Border Integration strategic focus is targeted on mission-integrated investments in **outbound** enforcement operations, **inbound** processing, and border patrol **checkpoint** processing. Strategies include a 100% query rate initiative; a pedestrian reengineering initiative; and an outbound enforcement initiative.

Field-level involvement of land border integration initiatives includes participation in port optimization projects such as Ready Lanes; Light-Emitting Diode (LED) Signage; Lane Optimization; and Rapid Log-on.

More than 84,000 vehicles and 143,000 travelers are now using Ready Lanes each week. Ready Lanes are lanes dedicated to processing travelers with RFID-enabled documents only. At most ports, the Ready Lanes are the busiest lanes at that location. Wait times in Ready Lanes are substantially lower than general POV lanes. Ready Lanes have been deployed to the Ambassador Bridge (Detroit); Del Rio; Ysleta (El Paso); Donna; DeConcini (Nogales); Peace Arch (Blaine); Lukeville; Otay Mesa; Eagle Pass; Douglas; Lincoln-Juarez (Laredo); Buffalo (Rainbow Bridge and Peace Bridge); Calexico East; and Brownsville (Gateway Bridge). Ready Lanes are planned to be deployed to El Paso (PDN Bridge and Bridge of the Americas); San Luis; and San Ysidro.

The LED signage project is deploying signs to ports nationwide to better manage traffic flow and provide information to travelers. LED signage is operational at four crossings in the Seattle Field Office, one crossing in the Boston Field Office, seven crossings in the Laredo Field Office, and one crossing in the San Diego Field Office. Crossings in the El Paso Field Office and Tucson Field Office were deployed in the 4th quarter FY 2011. During FY 2012, Phase 1 of LED signage deployment will be completed with the addition of two crossings in the Buffalo Field Office. Phase 2 of LED signage deployment is planned for completion at fourteen crossings – eleven on the Southwest border and three on the Northern border.

Generic Log On reduces the amount of time it takes for Vehicle Primary Client to launch, cutting in half the down time during a shift change. It has improved throughout deployed sites. Generic Log On is now available at all Field Offices and in the vehicle and pedestrian environments.

Land Border Integration is also evaluating avenues to optimize port operations to bring efficiencies gained in Ready Lanes to the pedestrian environment. A pilot project to use low power transmitters to communicate messages at the border is planned. Further, the applicability of mobile handheld technology for use during primary inspections of people, cargo and agriculture at remote locations (e.g., rail yards, vessels in stream, small General Aviation airports, etc.) and in secondary inspections is being investigated.

Outbound

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

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

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

Electronic System for Travel Authorization

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

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

Currently, the ESTA web site appears in English and 21 other languages and has the full capacity to process the total volume of Visa Waiver travelers arriving to the United States. ESTA became mandatory for all VWP travelers in January 2009. In January 2010, CBP began enforcing compliance by requiring airlines to verify ESTA status before boarding passengers. At the end of 2011, the compliance rate for travelers was over 99.5 percent.

In FY 2011, CBP introduced a fee mandated by the Travel Promotion Act. This $14.00 fee is required of all new applications. $10.00 of the fee funds the Corporation for Travel Promotion, and $4.00 funds the ESTA web-based application.

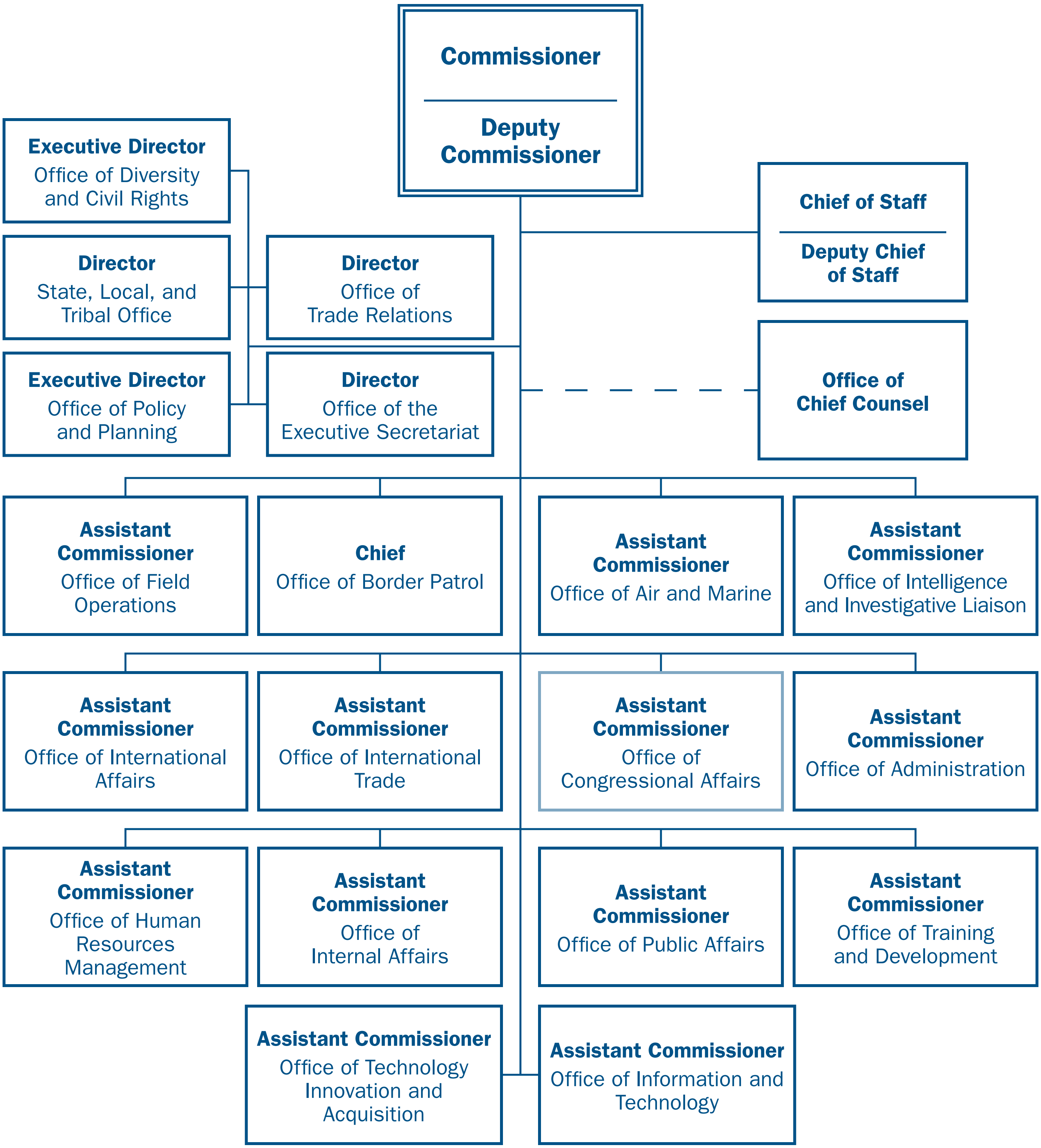
Human Resources Management

The Office of Human Resources Management (HRM) has developed a five-year strategic plan to effectively meet the challenges of CBP's future state. HRM's plan outlines a proactive course of action for building a sustainable infrastructure to handle the agency's projected growth, providing quality service and products to its customers, and integrating CBP's long-term human resources goals and objectives. HRM's strategic goals are: 1) to become a premier provider of customer-centric Human Resource (HR) advisory services; 2) to promote an environment that values employees; 3) to attract and retain a workforce that is capable of meeting CBP's mission; and 4) to build an infrastructure that provides for dynamic HR services.

Summary

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

CBP Organization



Headquarters

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

Deputy Commissioner: David V. Aguilar was named Deputy Commissioner of CBP on April 11, 2010. Mr. Aguilar is responsible for providing leadership and executive-level direction to CBP's day-to-day operations. This includes oversight of agency initiatives that facilitate the international movement of legitimate, low-risk goods and travelers while promoting effective border security.

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

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

Office of Executive Secretariat (OES): Is responsible for ensuring appropriate and expeditious action on all requests for information, executive correspondence, and official memoranda addressed to the Commissioner and other CBP and DHS senior officials. OES provides direct support to the Commissioner and Deputy Commissioner, as well as related support to leadership and management across the agency.

Office of Diversity and Civil Rights (DCR): Is responsible for developing and administering all CBP programs and activities necessary to ensure compliance with the Federal anti-discrimination laws, regulations and policies and civil rights and civil liberties requirements necessary to facilitate lawful individual travel and trade across the United States borders, while ensuring national security and economic prosperity. DCR strives to implement initiatives that sustain, retain and advance a highly qualified ethical workforce that attracts the most qualified candidates that America has to offer. In addition, DCR ensures that CBP is a progressive champion of diversity and inclusion by providing activities and programs that celebrate and honor all individuals.

Office of State, Local, and Tribal Liaison: Advises the Commissioner, Deputy Commissioner, and program offices regarding the impact of CBP policies and initiatives on state and local stakeholders. The liaison also acts as the primary conduit for information to, and guidance from, the DHS Office of Intergovernmental Affairs. In terms of external responsibilities, the liaison works to inform state and local stakeholders of current and proposed CBP programs, assists these stakeholders in addressing concerns with CBP programs, and assists in building and maintaining partnerships between CBP and state and local governments.

Office of Policy and Planning (OPP): Advises the executive staff on policy development and implementation in the broad array of issues addressed by CBP, including national border security policy, immigration enforcement, cargo security and facilitation, agriculture protection, interagency coordination, and legislation. The office further coordinates with individual offices and programs inside and outside the agency to develop specific strategies and planning guidance that support CBP's mission.

Office of Trade Relations (OTR): Is responsible for managing CBP's outreach and communications with the international trade community. The Office ensures that the trade community and the public understand that trade is an integral part of CBP's mission: making America safer, stronger, more prosperous, and economically competitive. OTR's mission is to continually improve relations between CBP and the trade community by enhancing collaboration, cooperation, and inform decision-making at all levels including operational, legislative, and political. OTR is also responsible for organizing and presenting formal CBP outreach efforts to the trade community, including CBP's annual Trade Symposium, monthly trade day meetings, trade roundtable meetings, and webinars. OTR manages the Advisory Committee on Commercial Operations of U.S. Customs and Border Protection (COAC), a congressionally mandated trade advisory group. OTR is the designated regulatory fairness representative for the agency with responsibility for promoting compliance with the Small Business Regulatory Enforcement Fairness Act (SBREFA).

Component Organizations and Field Structure

CBP is organized into 14 separate offices, each of which reports directly to the Commissioner. The mission of each office is described briefly below:

Office of Field Operations (OFO): Enforces customs, immigration, and agriculture laws and regulations at U.S. borders and has the primary responsibility for preventing terrorists and their weapons from entering the United States at the POEs. OFO maintains programs at 20 field operation offices; 329 POEs, 15 preclearance stations in Canada, the Caribbean, and Ireland; and 58 CSI ports worldwide. A Director of Field Operations heads each field office. Port Directors oversee POEs in their operational areas, where virtually all conveyances, passengers, and goods legally enter and exit the United States. OFO oversees the enforcement of laws and regulations while ensuring the safe and efficient flow of goods and people through the POEs.

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

Office of Air and Marine (OAM): Protects the American people and critical infrastructure through the coordinated use of integrated air and marine forces to detect, interdict, and prevent acts of terrorism and the unlawful movement of people, illegal drugs, and other contraband toward or across the borders of the United States. OAM's core competencies include air and marine interdiction, air and marine law enforcement, and national border domain security. OAM further supports DHS missions such as the response and recovery to natural disasters and terrorism.

Office of Intelligence and Investigative Liaison (OIIL): Develops, coordinates and implements intelligence capabilities to support the execution of CBP's mission to secure America's borders while facilitating legitimate trade and travel. OIIL serves as a coordinating facilitator that integrates CBP's diverse intelligence capabilities into a single cohesive intelligence enterprise. OIIL supports CBP's mission through a multi-layered approach that includes collecting and analyzing advance traveler and cargo information, using enhanced law enforcement technical collection capabilities, providing timely analysis of intelligence and information, and establishing intelligence-sharing relationships with Federal, state, local and tribal agencies and intelligence agencies.

Office of International Affairs (INA): The Office of International Affairs (INA) is responsible for coordinating and supporting CBP's foreign initiatives, programs and activities. To support CBP's mission, INA establishes essential partnerships with U.S. government agencies, foreign administrations, and international organizations. Within INA, U.S. Government, DHS, and CBP policy are transformed into actionable initiatives. INA supports CBP's defense in-depth strategy by implementing programs and initiatives that promote border enforcement best practices and capacity building. INA also negotiates international agreements and works to strengthen multi- and bi-lateral relationships that facilitate the flow of legitimate travel and trade. INA's organizational structure is composed of a Headquarters office in Washington, DC; field offices positioned in 25 countries consisting of 21 Attachés located in embassies; 4 Advisors located internationally separate from the Attaché offices; and, 1 Advisor located in Tampa, Florida.

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

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

Office of Administration (OA) and Chief Financial Officer (CFO): Oversees all financial operations, procurement, acquisition, asset management, and budget activities within CBP. OA is responsible for administering $12.4 billion that is budgeted annually for law enforcement and trade operations and processing collections of $37.2 billion in custodial and entity revenue annually. This office is responsible for administering the broad range of financial management activities delineated under the CFO Act of 1990, including accounting, budgeting, procurement, asset management, financial systems, and financial management.

Office of Human Resources Management (HRM): Manages a centralized human resources program for all CBP employees nationwide and overseas. HRM supervises all matters involving human resources, including organizational structure, staffing, compensation administration, benefits, workplace safety, personnel actions, labor relations, and employee relations. HRM also assists employees by providing recruitment services, retention support, benefits information, and employee health and wellness programs.

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

Office of Internal Affairs (IA): Serves as the designated Office of Security for CBP and manages a wide range of investigative and security functions and programs, including applicant and employee background investigations and clearances; employee integrity and misconduct investigations; credibility assessments including polygraph examination; operational field testing; integrity awareness and corruption detection; deterrence and prevention of internal corruption; physical, informational, operational, industrial and internal security; management inspections; audit liaison; and, monitors cyber security counter intelligence policies, instructions, procedures, control systems, networks and methods. IA's mission is clear and critically important - to promote the integrity and security of the CBP workforce.

Office of Public Affairs (OPA): Communicates CBP's mission and operations to the agency's chief stakeholders, which includes the American public, foreign nationals who conduct business in the United States, international trade entities, and travelers who cross U.S. borders. Tools used in the national and international public communication process include media outreach and public information campaigns conducted via media events, video, photography, and informational brochures. CBP maintains a public web site at **www.cbp.gov** and a national customer service call center, CBP INFO 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 Technology Innovation and Acquisition: Was established in July, 2010, to ensure that all of CBP's applied technology efforts are properly focused on the mission and are well integrated across the agency. In addition, OTIA is charged with strengthening CBP's expertise and effectiveness in acquisition and program management of contractor-delivered products and services. The new office is headed by an Assistant Commissioner who also serves as CBP's Component Acquisition Executive (CAE), providing oversight to all CBP acquisition programs to ensure they are managed in compliance with DHS and CBP regulations and policies.

Office of Training and Development (OTD): Is responsible for the centralized leadership and direction of all CBP training programs for the entire workforce. OTD ensures that all training supports the CBP mission and strategic goals and that the workforce is prepared to meet the challenges faced in the performance of mission critical operations by establishing CBP training standards and policies, leading the development, delivery and evaluation of training, and procuring the necessary tools.

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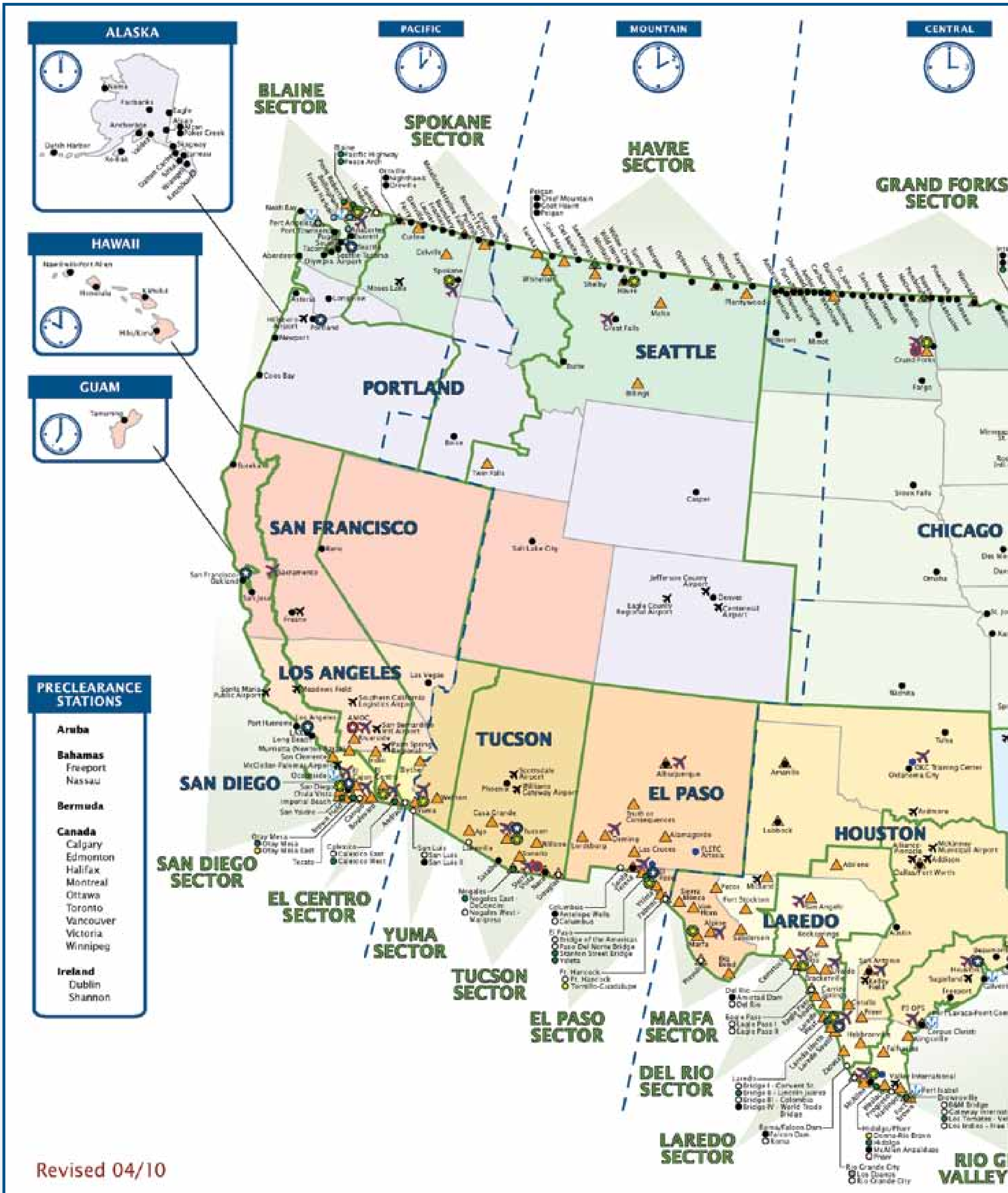
ALASKA
HAWAII
GUAM
PACIFIC
MOUNTAIN
CENTRAL
BLAINE SECTOR
SPOKANE SECTOR
HAVRE SECTOR
GRAND FORKS SECTOR
SEATTLE
PORTLAND
SAN FRANCISCO
CHICAGO
LOS ANGELES
TUCSON
EL PASO
HOUSTON
SAN DIEGO
LAREDO
SAN DIEGO SECTOR
EL CENTRO SECTOR
YUMA SECTOR
TUCSON SECTOR
EL PASO SECTOR
MARFA SECTOR
DEL RIO SECTOR
LAREDO SECTOR
VALLEY
Salt Lake City
Casper
Boise
Twin Falls
Billings
Great Falls
Reno
Sacramento
Fresno
San Jose
Las Vegas
Phoenix
Albuquerque
Denver
Omaha
Sioux Falls
Fargo
Grand Forks
Wichita
Tulsa
Oklahoma City
Amarillo
Lubbock
San Antonio
PRECLEARANCE STATIONS
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Bermuda
Canada
Calgary
Edmonton
Halifax
Montreal
Ottawa
Toronto
Vancouver
Victoria
Winnipeg
Ireland
Dublin
Shannon
Revised 04/10

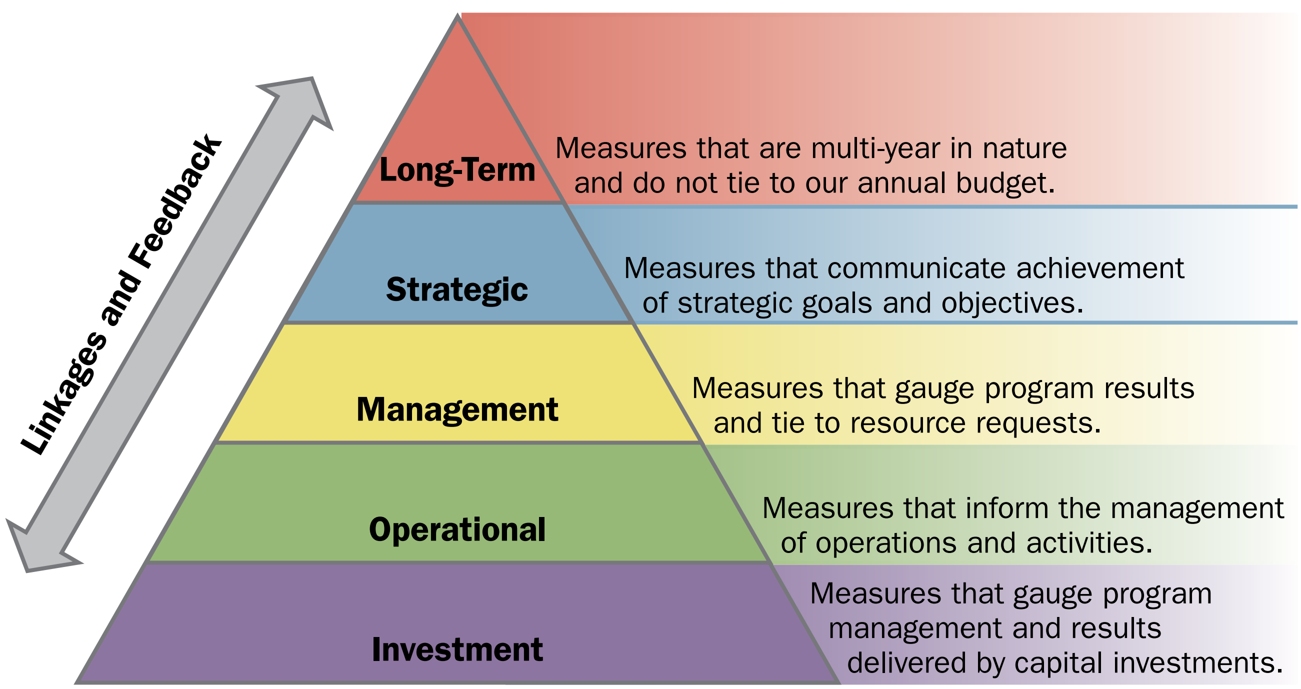
CENTRAL
EASTERN
GRAND FORKS SECTOR
DETROIT SECTOR
BUFFALO SECTOR
SWANTON SECTOR
HOULTON SECTOR
CHICAGO
DETROIT
BUFFALO
BOSTON
BALTIMORE
NEW YORK
CBP Headquarters
ATLANTA
HOUSTON
NEW ORLEANS
TAMPA
MIAMI
MIAMI SECTOR
NEW ORLEANS SECTOR
RIO GRANDE VALLEY SECTOR
LEGEND
CBP Headquarters
Office of Field Operations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

Performance Goals and Results

In FY 2011, the CBP Commissioner issued CBP's Missions, Goals, and Priorities, FY 2011–2013, a document that articulates the missions, goals, objectives, and priority initiatives for the agency. The document was designed to shape planning and policy development for CBP's offices, to guide resource allocation, and to provide direction to senior executives on where to focus their efforts.

CBP's Performance Management Framework (PMF) provides CBP with performance management and oversight capabilities that improve the efficiency and effectiveness of CBP programs, initiatives, and operations through improved measurement, analysis, and reporting. The PMF was designed to meet statutory reporting and budgeting requirements established by the Office of Management and Budget, the Government Performance and Results Act (GPRA) of 1993, and the GPRA Modernization Act of 2010. The PMF also supports management decision-making processes associated with agency-wide strategic planning, requirements determination, and resource allocation through the use of performance information in the execution of the annual budget.

The associated CBP Performance Measurement Hierarchy (as follows) contains five levels of performance measures: long-term, strategic, management, operational, and investment measures. The Hierarchy sets the foundation for performance measure presentation and reporting through a variety of formats and methods tailored to the decision-making processes they intend to serve.



Long-term level measures are measures that cross multiple fiscal years and do not tie to the annual budget. Strategic level measures manage and report accomplishments of CBP strategic goals and objectives, thus demonstrating the value our programs provide to the American people. Management level measures inform internal CBP decision-making processes to determine program priorities, allocate resources, and monitor progress and performance. Operational level measures inform management of the effectiveness and efficiency of individual program operations. Investment level measures are associated with our major capital investments and map to the Federal Enterprise Architecture Performance Reference Model.

Performance Management

CBP's performance management efforts are guided by key pieces of legislation that provide the framework for Government-wide performance improvement. The GPRA of 1993 established a solid foundation for results-oriented planning, measurement, and reporting in the Federal Government. The GPRA Modernization Act of 2010 sought to further that effort by promoting the consistent use of performance measurement and reporting outcomes to drive management decision-making and resource use. After passage of the GPRA Modernization Act of 2010, CBP immediately moved forward in incorporating aspects of the legislation into its processes.

CBP uses performance measures to determine if desired results are achieved as an indication of what the agency is accomplishing. CBP is dedicated to continuously refining and improving its performance measures. The goal is to ensure that the data we report internally and externally are useful to senior executives tasked with making difficult programming and funding decisions.

In February 2010, DHS completed the first Quadrennial Homeland Security Review (QHSR) in an effort to provide a strategic framework that guides the activities of participants in homeland security toward a common end. In FY 2010, and in concert with DHS, CBP engaged in a review of existing performance measures to ensure that the Department can accurately monitor and improve its performance towards meeting the missions, goals and objectives outlined in the QHSR. Where gaps existed, new measures were proposed and developed. In FY 2011, CBP finalized the development of these new measures and also proposed the development of several additional measures.

Furthermore, the strategic goals and objectives in CBP's Missions, Goals, and Priorities, FY 2011–2013 document provided a roadmap of activities for accomplishing the agency's important mission. Upon its adoption, the agency identified several strategic areas that would benefit from new outcome-based performance measures and began the process of developing them. By responding to emerging guidance, CBP will demonstrate program effectiveness in achieving our long-term performance goals through the continuous improvement of performance measures.

In June of 2009, the Administration launched a new initiative that asked agency leaders to identify and commit to a select number of priority goals that are of high value to the public. The intent was for the goals to be accompanied by ambitious, but realistic, targets to achieve within two years using existing resources. This concept of establishing High Priority Performance Goals (HPPG) was also formalized in the GPRA Modernization Act of 2010. To ensure DHS delivers on its most important priorities, Secretary Napolitano identified a limited number of HPPG. These goals focus on executing programs effectively and delivering meaningful performance improvements for the American people. Of the DHS high performance priority goals, CBP has remained focused on securing and managing our borders through the Western Hemisphere Travel Initiative (WHTI) during FY 2011. As a result of the success that WHTI has been able to achieve, the HPPG will be retired and replaced by a new HPPG from CBP's Border Patrol in FY 2012.

The FY 2011 results are below:

CBP HIGH PRIORITY PERFORMANCE GOAL (HPPG) RESULTS – FY 2011 RESULTS				
#	HPPG PERFORMANCE MEASURE	FY 2011 Target	FY 2011 End of Year Results	Status
1	Percent of travelers entering the United States with a secure document that establishes identity and citizenship	97.0%	96.2%	Not Met
2	Number of travelers who have been issued a WHTI-compliant, technologically enhanced secure travel documents (RFID enabled)	9,000,000	11,800,00	Met
3	Average privately-owned vehicle processing time at land borders (decreasing seconds)	58	58	Met
4	Average pedestrian processing time at land borders (decreasing seconds)	22	22	Met

FY 2011 Performance by Mission Set

This section presents a discussion of highlighted FY 2011 performance objectives and related key performance measures for each of CBP's Mission Sets. Additional performance measures and results can be found in the "Performance Section" under "Performance Summary," beginning on page 71.

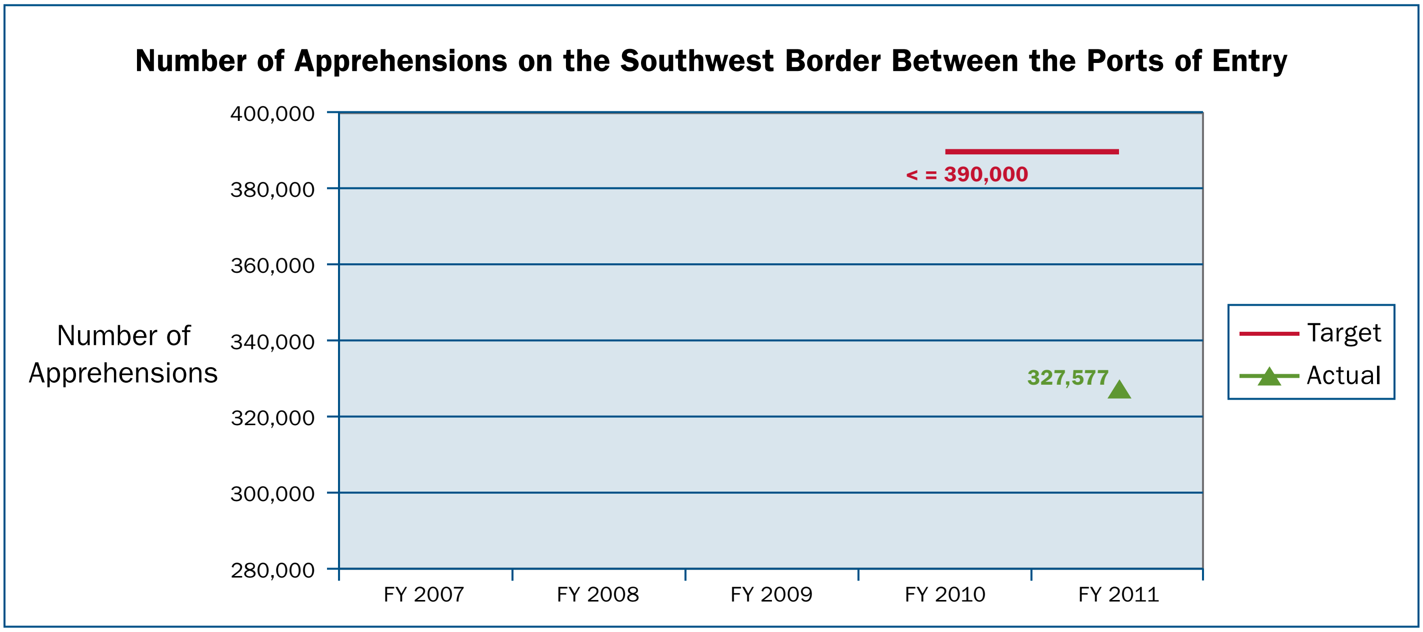
Mission Set 1: Securing America's Borders

As a frontline border security agency, CBP has a multifaceted and complex mission of protecting the Nation against a multitude of cross-border violations. All CBP efforts to secure the border, including our mission of enforcing the immigration, customs, trade, agriculture, and other laws of the United States contribute to the mission of thwarting terrorism.

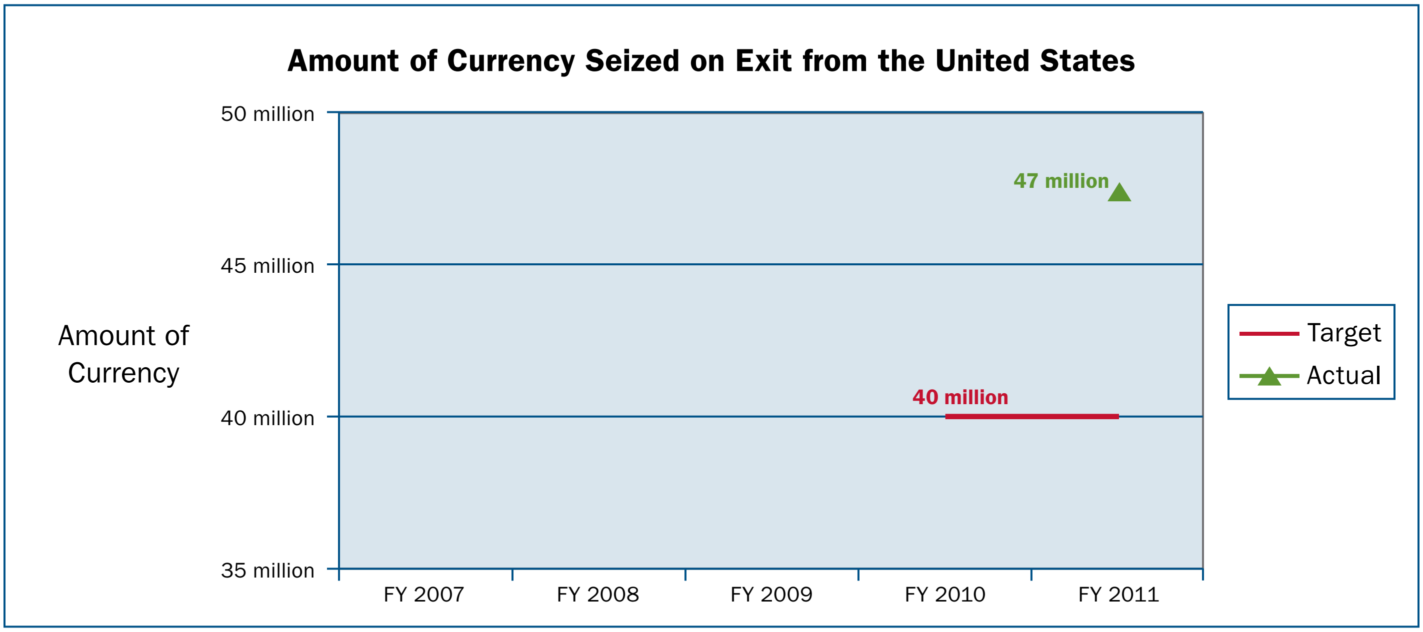
Performance Objective—Secure the U.S. border in areas deemed as high priority for terrorist threat potential or other national security objectives.

CBP will continue its efforts to improve security at and between our POE by using information and intelligence to focus resources in a more effective, risk-based manner. Providing security along our northern, southern, and coastal borders requires integration with our international, Federal, state, local, and tribal partners in order to leverage and focus joint resources.

Performance Measure—Number of apprehensions on the Southwest Border between the ports of entry.					
Description	Protection of our southwest border against threats from illicit cross-border activity is a key element needed to secure our country. This measure calculates the number of apprehensions made of those attempting entry along the southwest border between an official POE. DHS's border security strategy is based on a layered approach of strategically positioning personnel, technology, and defensive infrastructure; developing strong partnerships with law enforcement partners on both sides of the border; and increasing consequences to repeat offenders to provide a deterrent effect. Collectively, these efforts are intended to reduce apprehensions.				
KEY HIGHLIGHTS					
Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Target	N/A	N/A	N/A	N/A	< = 390,000
Actual	N/A	N/A	N/A	N/A	327,577
Explanation of FY 2011 Results	***Target Met*** - Border Patrol was successful in meeting its target to reduce apprehensions along the southwest border during a time when comprehensive and focused activities by the Border Patrol have taken place, especially in the Tucson Sector of Arizona, where apprehensions are highest. Measures taken in 2011 that were aimed at decreasing apprehensions included the continuation of the operation ACTT and the positioning of 1,000 additional agents along the southwest border.				
Recommended Action	N/A				



Performance Measure—Amount of currency seized on exit from the United States.					
Description	This measure provides the total dollar amount of all currency in millions seized during outbound inspection of exiting passengers and vehicles, both privately-owned and commercial. The scope of this measure covers both the southwest and northern borders and includes all modes of transportation (land, air, and sea).				
KEY HIGHLIGHTS					
Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Target	N/A	N/A	N/A	N/A	40,000,000
Actual	N/A	N/A	N/A	N/A	47,000,000
Explanation of FY 2011 Results	***Target Met*** - This is a new measure for FY 2011. It is based on limited surge activity for Exit/Outbound operations at a selected group of ports. This measure provides the total dollar amount of all currency seized during outbound inspection of exiting passengers and vehicles, both privately-owned and commercial. Outbound currency seizures at the southwest border contributed significantly to the result.				
Recommended Action	N/A				



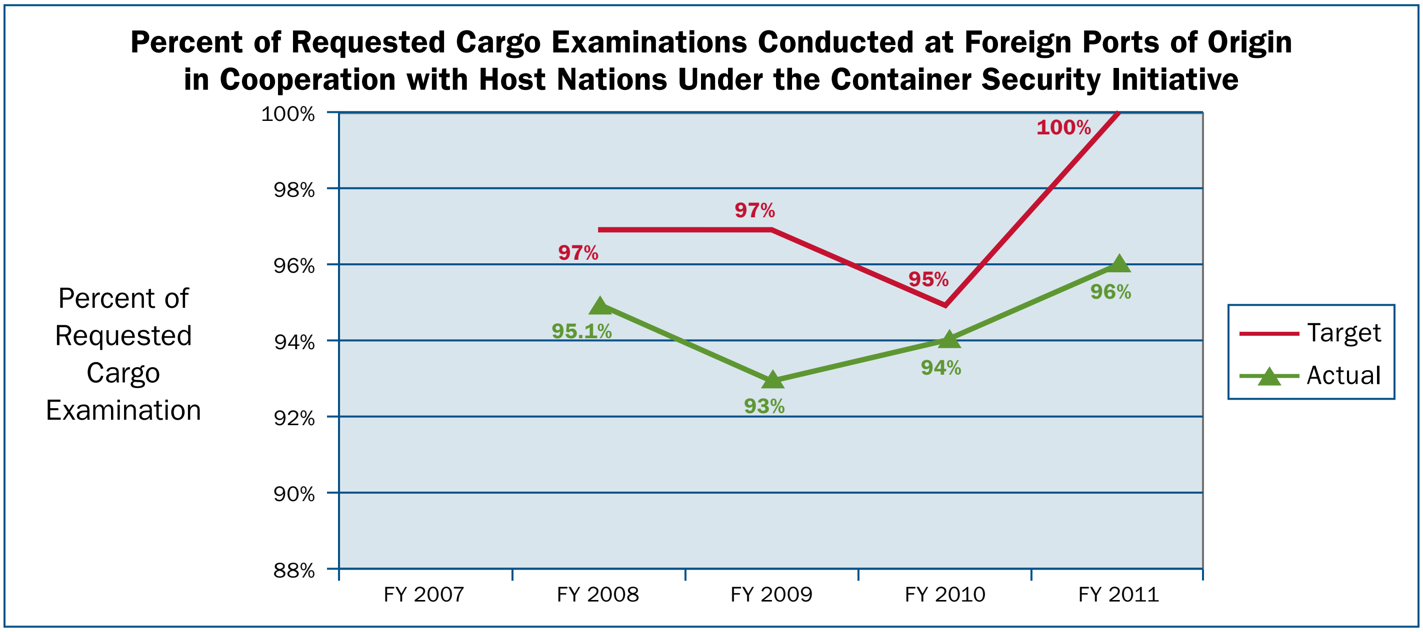
Mission Set 2: Securing and Expediting the Movement of People and the Flow of Goods

In order to meet the twin goals of security and facilitation, CBP will develop and implement programs that expedite the processing of people and goods at land border ports, airports, and seaports, while at the same time securing the global trade environment and strengthening supply chain security. CBP will focus its resources on identifying and responding to high-risk travelers and conveyances. CBP employs a risk-based, layered enforcement approach through the use of accurate advance information; the most advanced inspection, screening, and scanning technology available; modernized systems for cargo processing; and international and trade compliance partnership programs. Modern trade practices make it essential for CBP to provide risk-based, predictable, transparent, and efficient procedures for the clearance of goods, while simultaneously addressing increasingly complex trade compliance requirements and evolving security challenges.

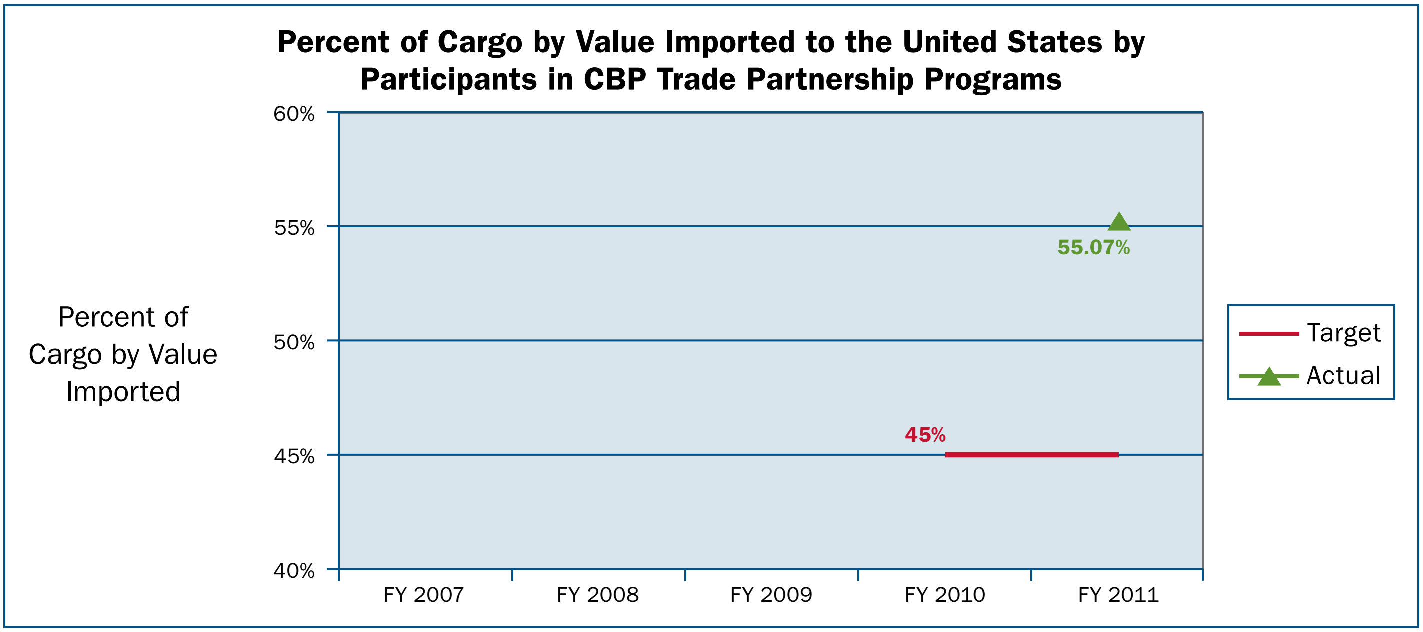
Performance Objective—Improve the targeting, screening, and apprehension or seizure of high-risk international travelers and cargo away from the physical border in order to prevent terrorist attacks and criminal activity while expediting the processing of legitimate travelers and cargo.

CBP's ability to expedite the processing of people, products, and conveyances is dependent on its ability to identify high-risk travelers and goods for inspection. High-risk targeting allows law-abiding travelers and commerce to move without unnecessary delay. CBP applies its targeting methods against data to determine which passengers or shipments need to be segregated for closer inspections. CBP uses the ATS and associated databases to provide CBP officers (including those stationed overseas) with advance notice of travelers and goods arriving at U.S. POEs, allowing them to cross-check the passenger and cargo manifests against databases such as TECS and the National Crime Information Center.

Performance Measure—Percent of requested cargo examinations conducted at foreign ports of origin in cooperation with host nations under the Container Security Initiative.					
Description	The measure is an indication of the extent to which potential higher-risk cargo is satisfactorily inspected before it leaves the foreign port of origin. This measure is the percent of requested container examinations resolved or conducted by foreign Customs officials meeting CBP examination standards and requirements divided by the total number of examinations requested by CBP CSI officials. These examinations would otherwise have taken place at U.S. POE.				
KEY HIGHLIGHTS					
Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Target	N/A	97%	97%	95%	100%
Actual	N/A	95.10%	93%	94.00%	96.00%
Explanation of FY 2011 Results	***Target Not Met*** - The Container Security Initiative is based on a diplomatic agreement that relies on the voluntary cooperation of host nation Customs officials. Examination rates depend on a number of factors outside of CBP operational control, including host port logistics, procedures, and installed equipment and technology. CBP continually works with the host ports to resolve examination issues as they arise. The low rates of completed examinations at the Chinese ports of Shanghai and Shenzhen significantly impact the overall rate.				
Recommended Action	CBP continually works with the host ports to resolve examination issues as they arise. CBP, DHS, and DOS are working with Chinese representatives to increase the percentage of conducted examinations.				



Performance Measure—Percent of cargo by value imported to the United States by participants in CBP trade partnership programs					
Description	This measure describes the percent of all cargo that is imported from CBP trade partnership programs based on the value compared to total value of all imports. Partnership programs include both Customs-Trade Partnership Against Terrorism (C-TPAT) and Importer Self Assessment (ISA). CBP works with the trade community through these voluntary public private partnership programs, wherein some members of the trade community adopt tighter security measures throughout their international supply chain and in return are afforded benefits. A variety of trade actors are included in these partnership programs, such as importers, carriers, brokers, consolidators/third party logistic providers, Marine Port Authority and Terminal Operators, and foreign manufacturers.				
KEY HIGHLIGHTS					
Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Target	N/A	N/A	N/A	N/A	45%
Actual	N/A	N/A	N/A	N/A	55.07%
Explanation of FY 2011 Results	***Target Met*** - Continued outreach activities by OT resulted in a 7% increase in the total number of ISA participants.				
Recommended Action	N/A				



Mission Set 3: Sustaining Investment in People and Capabilities

In order for CBP to remain a successful law enforcement organization, it will invest in its people. This includes providing training for CBP agents, officers, and mission support personnel to ensure they are proficient in their job-related skills and are prepared for future leadership opportunities. This also includes addressing any integrity issues that may arise.

Performance Objective—Improve mission effectiveness and efficiency by integrating, unifying, and leveraging resources to support CBP's operational offices.

Another aspect of CBP investing in its people includes ensuring that its agents and officers on the border have the required technology to achieve the organization's objectives. This includes having the proper technology to communicate with our Mexican, Canadian, Federal, state, local, and tribal partners.

While the activities that fall under this Mission Set are important to CBP's success, CBP does not have GPRA or Strategic measures that align to this Mission Set due to the mission support nature of its activities. Operational measures exist within this Mission Set and are used in internal decision-making processes.

Management Assurances

Overview

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

Federal Managers' Financial Integrity Act

In accordance with FMFIA and OMB Circular A-123, CBP has evaluated its management controls and financial management systems for the FY ending September 30, 2011. Through its annual self-assessment process and GAO and OIG reviews for FY 2011, we are reporting 1 material weakness and 2 instances of nonconformance.

Custodial Revenue and Drawback Controls

Drawback involves the reimbursement of duties paid by an importer on materials or merchandise imported into the United States and subsequently exported. In 1993, deficiencies were reported in the controls to prevent excessive drawback claims. CBP's Automated Commercial System (ACS) has inherent limitations in detecting and preventing excessive drawback claims; therefore, CBP relies on a risk-based approach to review drawback claims. The strengthening of drawback controls is dependent on legislation to simplify the drawback process and to revise document retention requirements for the trade. CBP has recommended changes to the record-keeping requirements; however, support from the trade community is crucial to proposing a statutory change. In addition, weaknesses have been noted and are being addressed in the monitoring of Foreign Trade Zones and Customs bonded warehouses, as well as trade compliance measurement and the tracking of In-Bond cargo.

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

DHS requires each component's Information Technology (IT) systems identified as CFO-Designated Systems to comply with the 27 key internal controls detailed in the DHS Management Directive 4300-1, DHS Sensitive Systems Policy Directive 4300A, DHS 4300A Sensitive Systems Handbook (SSH), and its Attachment R, Compliance Framework for CFO Designated Financial Systems. The DHS OIG has noted that there continues to be IT general and application control weaknesses at CBP. During the FY 2011, 4 prior year IT findings were closed. CBP will work to reduce the number of IT findings in FY 2012.

Core Financial Systems

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

DHS Financial Accountability Act

The DHS Financial Accountability Act requires an assertion of internal controls over financial reporting. For FY 2011, CBP focused on performing verification and validation procedures and tests of operational effectiveness over corrective actions taken throughout FY 2011. Areas of corrective actions included:

- **Financial Reporting –** updated policies and procedures, improved agency wide communication, and implemented additional financial statement reviews. Included were improvements to the year-end accounts payable accrual process and detailed communication requirement plans for financial statement information. These improvements resolved two prior audit findings;

- **Budgetary Resource Management –** updated policies and procedures related to timely review, monitoring, and deobligation of undelivered orders, and provided guidance to appropriate supporting documentation. In FY 2011, the CBP Procurement Directorate performed an extensive review over obligations completing 1,041 de-obligation actions totaling $260 million;

- **Property Management –** updated procedures and data systems to address asset addition transactions and the use of a holding account for recording certain assets. CBP implemented new policies and procedures for identifying percent-of-completion accruals on construction projects, and for transaction review requirements related to timely and accurate posting of inventories, capital asset purchases, and disposal. These procedures resulted in removing one audit finding relating to air parts inventory and improved audit results relating to capitalized property;

- **Revenue and Receivables Management –** CBP is currently reviewing the sampling methodology for the Drawback Compliance Measurement Program. CBP is exploring the possibility of using the In-Bond Compliance Measurement tool to enhance Headquarters' monitoring capabilities; and

- **Financial System Security –** updated policies and procedures related to Contracting Officer Technical Representative duties and explored automated options to complete and maintain the CBP form 241 Employee Separation Form.

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

Federal Financial Management Improvement Act

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

Federal Information Security Management Act

FISMA requires agencies to conduct an annual self-assessment review of their IT security programs and to develop and implement corrective actions for identified security weaknesses and vulnerabilities. CBP has completed a comprehensive self-assessment for FY 2011 and can state with reasonable assurance that the IT security controls are in compliance with FISMA, with the exception of the material weakness previously discussed.

Systems and Controls

Overview

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

Data Systems and Controls: Performance data for the planned performance measures are generated by automated management information and workload measurement systems and reports as a byproduct of day-to-day operations. All levels of management routinely monitor the data systems and controls. CBP management has reviewed the performance measurement data for FY 2011 and has determined, with reasonable assurance, that the data is complete, accurate and reliable.

Audit of the FY 2011 CBP Consolidated Financial Statements: To assist the Department in complying with the DHS Financial Accountability Act of 2002, the DHS OIG engaged independent auditors, KPMG LLP, to audit CBP's consolidated financial statements (Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, Combined Statements of Budgetary Resources, and Consolidated Statements of Custodial Activity), hereinafter referred to as the "financial statements." The objective of the audit was to determine whether CBP's financial statements are fairly presented in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. The Independent Auditor's Report can be found on page 137.

Management Inspections

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

MID's work reflects a proactive approach to identifying areas of potential vulnerability or conditions that could hinder the successful accomplishment of CBP operational goals and objectives. During FY 2011, MID issued a total of 64 reports, presenting CBP executive managers with 486 recommendations to address operational, financial or administrative deficiencies identified during inspection activity.

Self-Inspection Program

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

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

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

On a national level, the analysis of self-inspection results allows executive managers and national program managers to gauge the level of compliance with critical program management controls; identify programmatic issues that require national attention; and provide appropriate guidance to CBP offices and managers. For the current reporting cycle, more than 2,000 managers in approximately 700 CBP Headquarters and field offices performed self-assessment activities researching, certifying, and /or approving the results of office self-inspections. CBP managers completed 15,247 self-inspection worksheets by answering a total of 98,406 questions.

Audit Management and Liaison

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

In FY 2011, CBP had 163 ongoing GAO and OIG audits. Of these audits, GAO initiated 42 new audits (57 audits were carried over from previous years) and issued 38 reports containing 31 recommendations. DHS OIG initiated 31 new audits (33 audits were carried over from previous years) and issued 27 reports containing 33 recommendations. As of the end of FY 2011, CBP has 131 open recommendations.

Financial Management

Overview

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

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

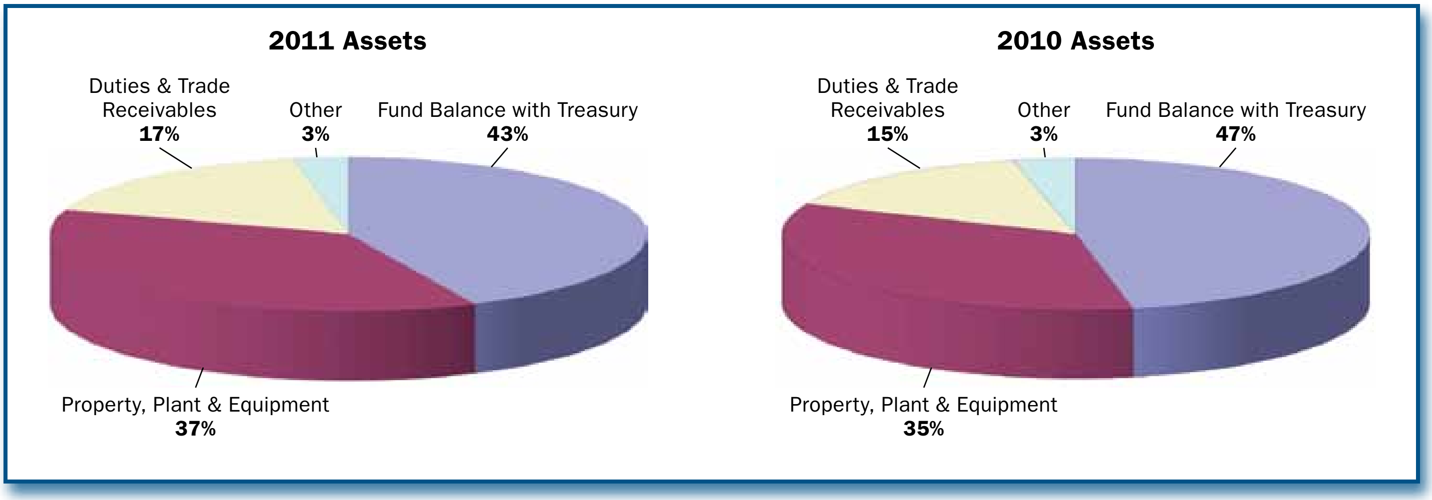
For FY 2011, SAP financial software continues to be used by CBP. SAP is a modular, PC-based, integrated financial management and reporting system that provides full materials management, budgeting, and general and subsidiary ledger capabilities. The impact of SAP is far-reaching, as it has put into place new automated, integrated processes for core finance and accounting, budget execution, and reporting.

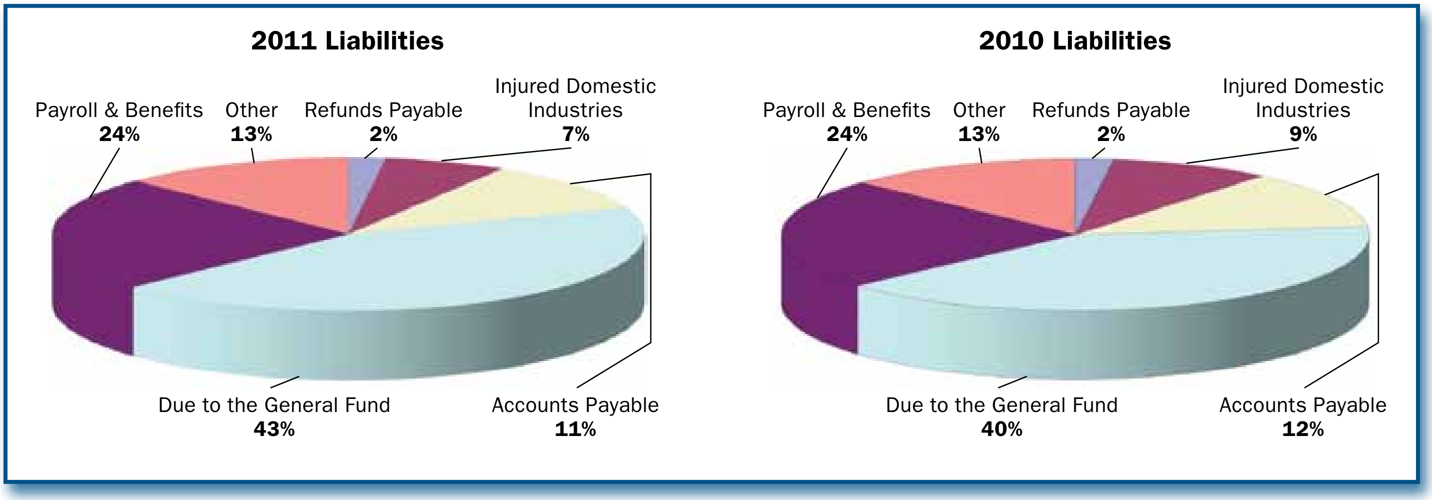
Overview of the Financial Statements

The financial statements and footnotes appear in the "Financial Section" of this report on pages 88 through 136. The financial statements have been audited by the independent auditor engaged by the DHS OIG, KPMG LLP, who determined that the financial statements are fairly presented in accordance with GAAP.

Consolidated Balance Sheet

The Consolidated Balance Sheet presents the property owned by CBP (assets), amounts owed by CBP (liabilities), and the amounts of the difference (net position). As of September 30, 2011, total assets were $16.2 billion, a 1 percent decrease from FY 2010.

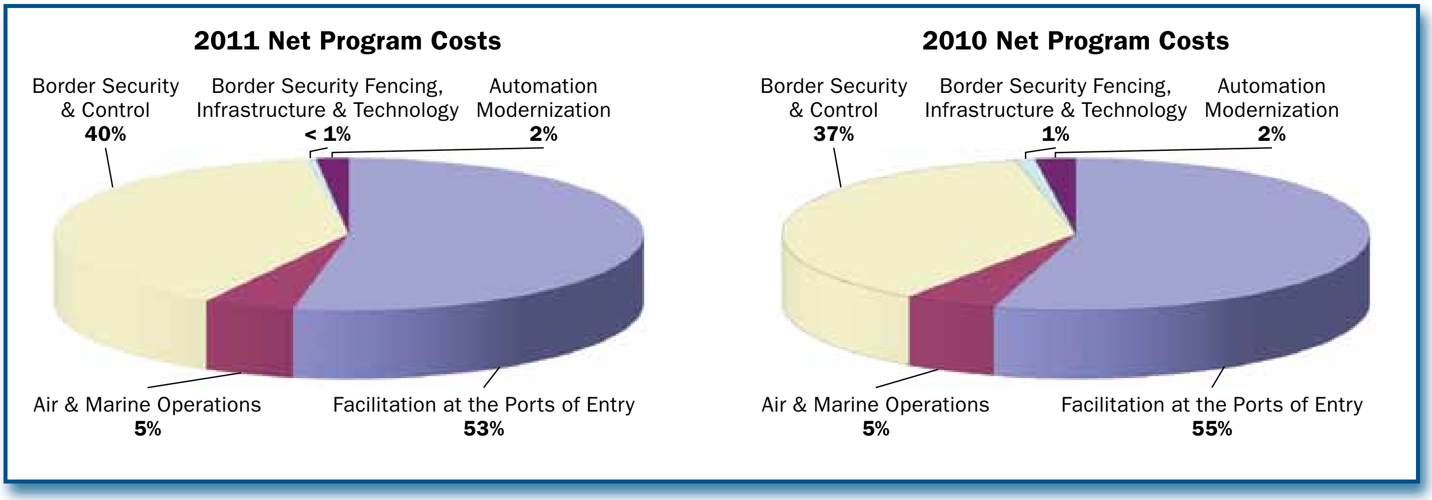




As of September 30, 2011, total liabilities were $6.5 billion, an increase of 5 percent over FY 2010, which related to amounts due to the Treasury General Fund. The assets and liabilities charts present a comparison of the major categories as a percentage of the totals for FY 2011 and FY 2010.

Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost presents the net cost of the major CBP programs as they relate to the goals of the 2009–2014 Strategic Plan. The gross cost less any offsetting revenue for each program equals net cost of operations. Net cost of operations was $12.0 billion.



Consolidated Statement of Changes in Net Position

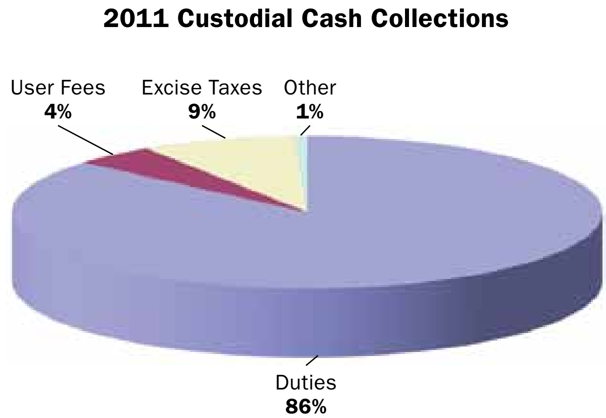
The Consolidated Statement of Changes in Net Position represents those accounting transactions that caused the net position of the balance sheet to change from the beginning to the end of the reporting period. CBP's net cost of operations serves to reduce the net position. Appropriations used totaled $8.8 billion, representing 71 percent of CBP's total financing sources. CBP collected and retained $2.6 billion of non-exchange revenue, amounting to 21 percent of total financing sources, which was used to fund CBP operations.

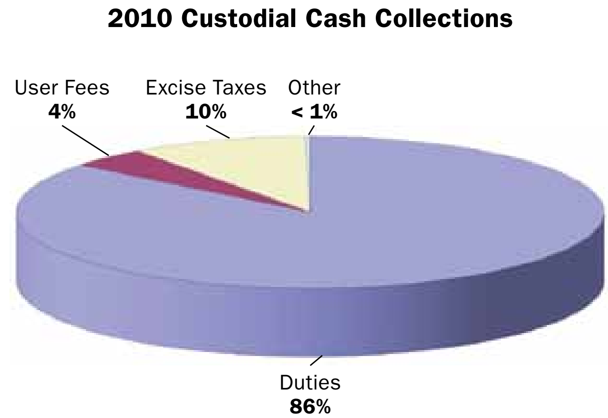
Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources illustrates how budgetary resources were made available, as well as their status at the end of FY 2011. CBP had $17.0 billion in budgetary resources, of which $2.3 billion were unobligated. CBP incurred obligations of $14.7 billion and recorded $14.5 billion in gross outlays by the end of the Fiscal Year.

Consolidated Statement of Custodial Activity

The Consolidated Statement of Custodial Activity presents non-entity (financial activity conducted by CBP on behalf of others) revenue and refunds using a modified cash basis. This method reports revenue from cash collections separately from receivable accruals, and cash disbursements are reported separately from payable accruals. The custodial revenue, using the modified cash basis, for FY 2011 was $34.2 billion.





Limitations of the Financial Statements

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

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

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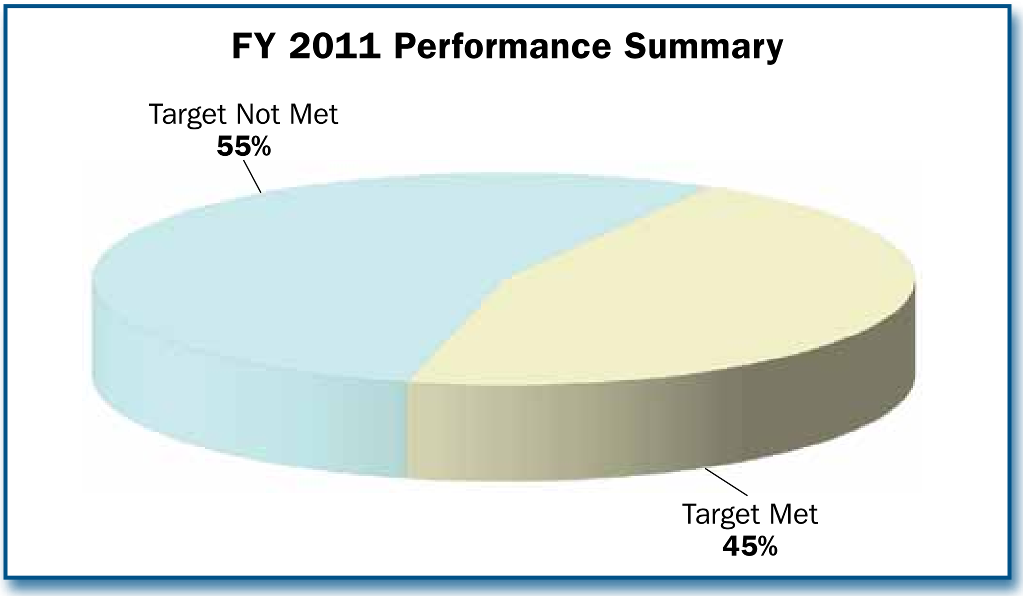
Performance Section

Performance Summary

The charts below highlight CBP's success in achieving FY 2011 performance goals. The performance measures are established as an integral part of CBP's Missions, Goals, and Priorities, FY 2011–2013 document, the QHSR, and the DHS Future Years Homeland Security Program (FYHSP). The measurement data is 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.



CBP Performance Recap

Mission Set	Performance Measure	FY 2010 Recap		FY 2011 Recap			
		Target	Result	Target	Result	Target Achieved?	Improved From FY 2010?
Securing America's Borders	Number of apprehensions on the Southwest border between the ports of entry.	N/A	N/A	< = 390,000	327,577	🟢	
	Completion rate of projected deployments of Border Patrol agents to the Southwest border.	N/A	N/A	100%	100%	🟢	
	Number of joint operations conducted along the Southwest border by CBP and Mexican law enforcement partners.	N/A	N/A	9	12	🟢	
	Number of weapons seized on exit from the United States.	N/A	N/A	2,200	1,987	🔴	
	Amount of currency seized on exit from the United States.	N/A	N/A	40M	47M	🟢	
	Percent of detected conventional aircraft incursions resolved along all U.S. borders.	N/A	N/A	100%	95.30%	🔴	
Securing and Expediting the Movement of People and the Flow of Goods	Compliance rate for C-TPAT[1] members with the established C-TPAT[1] security Guidelines.	95%	97.80%	100%	95.10%	🔴	No
	Percent of cargo by value imported to the United States by participants in trade partnership programs.	N/A	N/A	45%	55.07%	🟢	
	Percent of requested cargo examinations conducted at foreign ports of origin in cooperation with host nations under CSI[2].	95%	94%	100%	96%	🔴	Yes
	Percent of revenue directed by trade laws, regulations, and agreements successfully collected.	N/A	N/A	100%	99.12%	🔴	
	Percent of imports compliant with applicable U.S. trade laws.	N/A	N/A	98%	97.67%	🔴	
Sustaining Investment in People and Capabilities	GPRA or Strategic measures do not exist within this Mission Set. Operational measures exist wihin this Mission Set and are used in internal decision-making processes.						

(1) Customs-Trade Partnership Against Terrorism

(2) Container Security Initiative

🟢 *= Target Achieved*

🔴 *= Target Missed*

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 FY 2011, CBP has 11 GPRA performance measures that support CBP's Missions, Goals, and Priorities. Of the 11 performance measures, 5 were met and 6 were not met. The performance data presented in this report is 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 64) 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 this data to improve the quality of program management and demonstrate accountability of program results.

Individual Performance Measure Results

This section describes CBP's FY 2011 results for each GPRA performance measure by the CBP Mission Set 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 52.

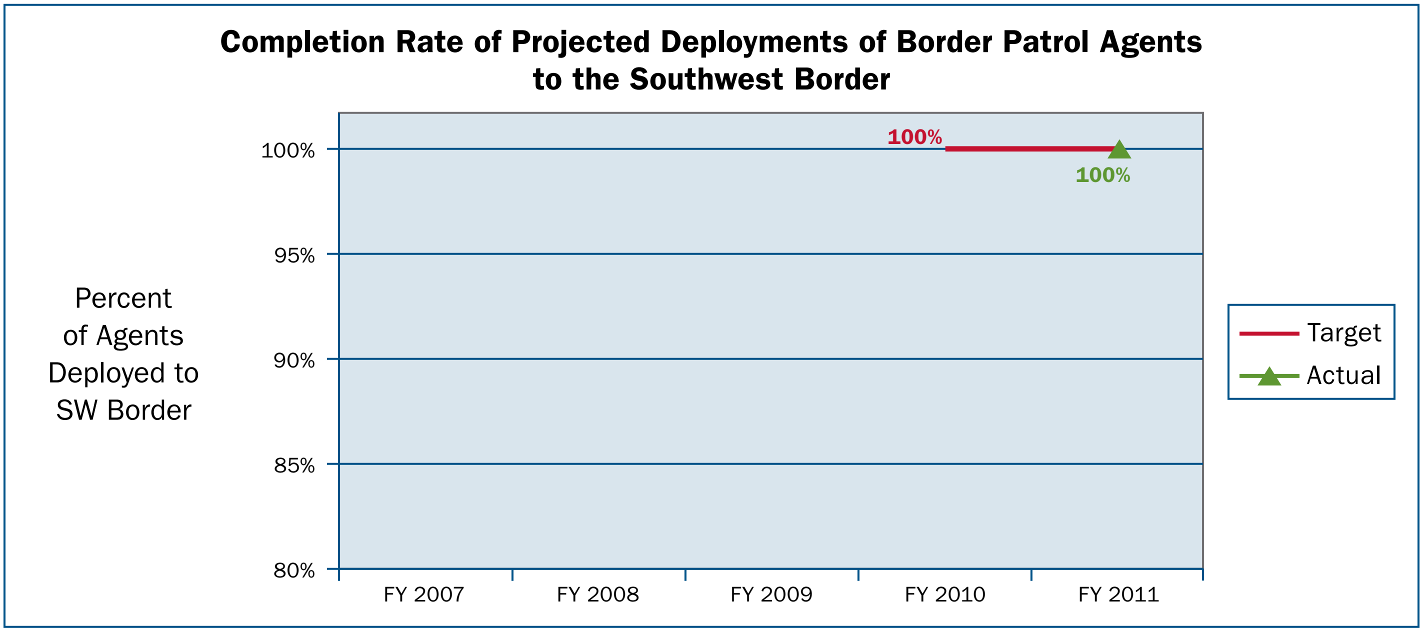
Mission Set 1: Securing America's Borders

Performance Objective—Secure the U.S. border in areas deemed as high priority for terrorist threat potential or other national security objectives.

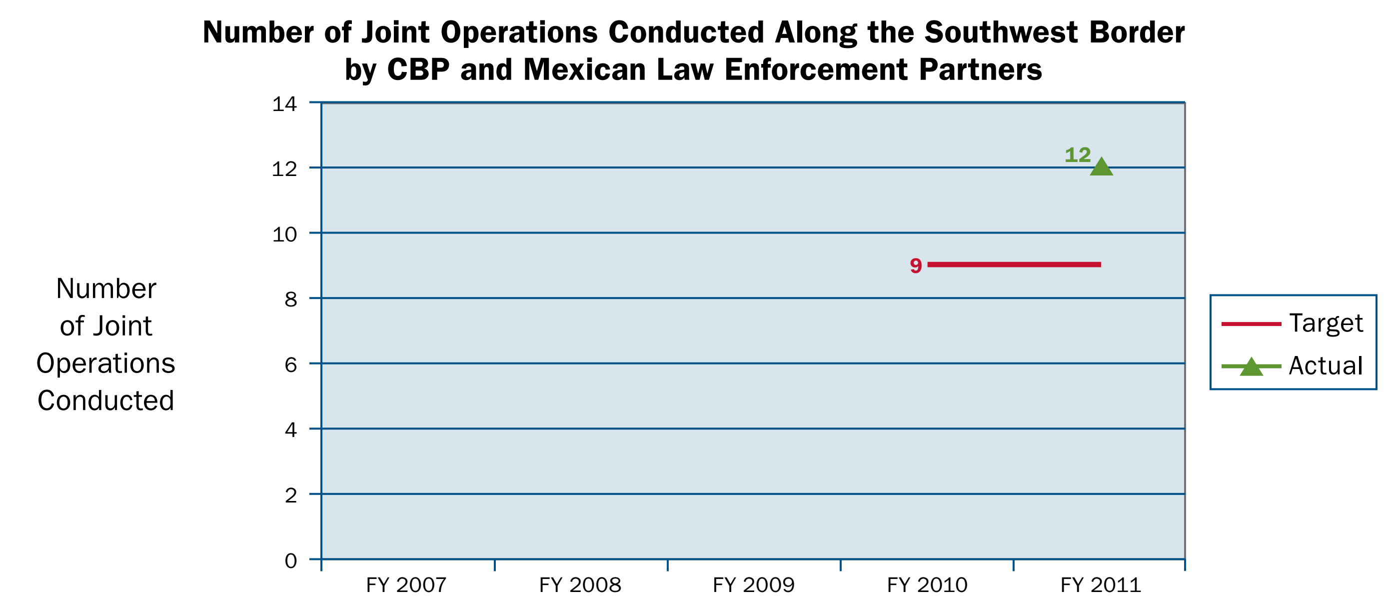
The measures aligned to this Mission Set are focused on showing CBP's effectiveness in securing the border and achieving the Mission Set's performance objective. For example, there is a correlation between the "Number of apprehensions on the southwest border between the POE" and the "Number of unlawful migrants attempting to cross the southwest border." By effectively utilizing a combination of additional personnel, technology, and infrastructure, delivering appropriate consequences to repeat offenders, and leveraging partnerships, CBP can decrease the "Number of apprehensions on the southwest border between the POE" and ultimately decrease the "Number of unlawful migrants attempting to cross the southwest border" as a result of deterrence. CBP is also screening southbound rail and vehicle traffic for the illegal weapons and cash that are helping fuel the cartel violence in Mexico. The "Amount of currency seized on exit from the United States" and the "Number of weapons seized on exit from the United States" show the results of CBP's efforts in this area.

Performance Measure—Number of apprehensions on the southwest border between the ports of entry.	
Explanation of FY 2011 Results	***Target Met***—See page 55 for results and detailed discussion.

Performance Measure—Completion rate of projected deployments of Border Patrol agents to the southwest border.					
Description	This measure assesses Border Patrols effectiveness at strategically deploying additional agents to areas that currently have the highest illegal alien activity in a timely manner between the ports of entry to reduce the illicit trafficking of people, drugs, currency, and weapons in the areas of greatest need.				
KEY HIGHLIGHTS					
Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Target	N/A	N/A	N/A	N/A	100%
Actual	N/A	N/A	N/A	N/A	100%
Explanation of FY 2011 Results	***Target Met***—U.S. Border Patrol was able to successfully fill all of the 1,000 supplemental positions identified in the FY 2010 Emergency Supplemental Appropriation to increase security along the Southwest Border and establish a mobile response team.				



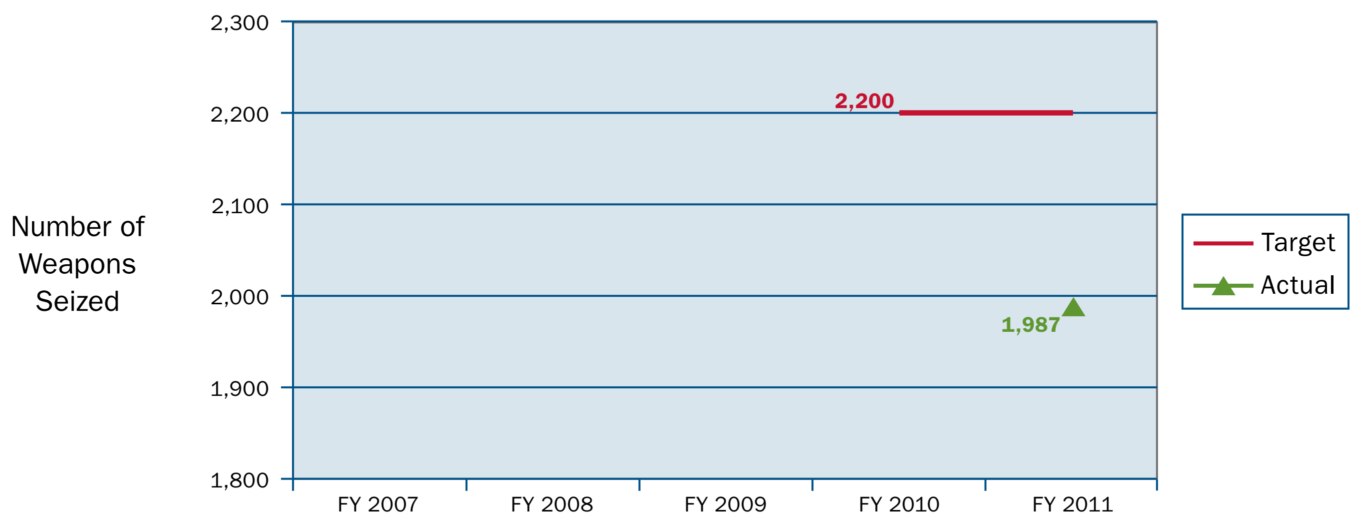
Performance Measure—Number of joint operations conducted along the southwest border by CBP and Mexican law enforcement partners.					
Description	Bi-lateral law enforcement efforts between CBP and our Mexican partners at local, state, and Federal levels are essential for having a secure border that allows for legal trade and travel, and addresses threats in the border area, including border violence and illicit activity caused by drug cartels and smugglers of people, narcotics, and other contraband. This measure tracks the number of joint operations that include GOM law enforcement agencies as partners formalized by operations orders that define levels of participation and dedication of resources.				
KEY HIGHLIGHTS					
Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Target	N/A	N/A	N/A	N/A	9
Actual	N/A	N/A	N/A	N/A	12
Explanation of FY 2011 Results	***Target Met***—CBP/U.S. Border Patrol conducted twelve (12) joint operations along the Southwest Border with Mexican law enforcement partners that were formalized by operations orders in the Border Patrol Enforcement Tracking System (BPETS) for FY 2011. Southwest Border Sectors and their respective International Liaison Units continue to collaborate with various GOM entities every day. Not all efforts warrant an operations order yet the partnerships at the local level yield countless accomplishments which fortify the bonds established by the men and women of CBP. Bi-lateral law enforcement efforts between CBP/Border Patrol and Mexican law enforcement partners at local, state, and Federal levels enhance the ability to ensure legal trade and travel, while mitigating cross-border security threats, including illicit activity by smuggling cartels and others who would do harm to our Nation. This measure tracked, by fiscal year and quarter, the number of active joint operations that are formalized by operations orders which defined levels of participation and dedication of resources.				



Performance Measure—Amount of currency seized on exit from the United States.	
Explanation of FY 2011 Results	***Target Met***—See page 56 for results and detailed discussion.

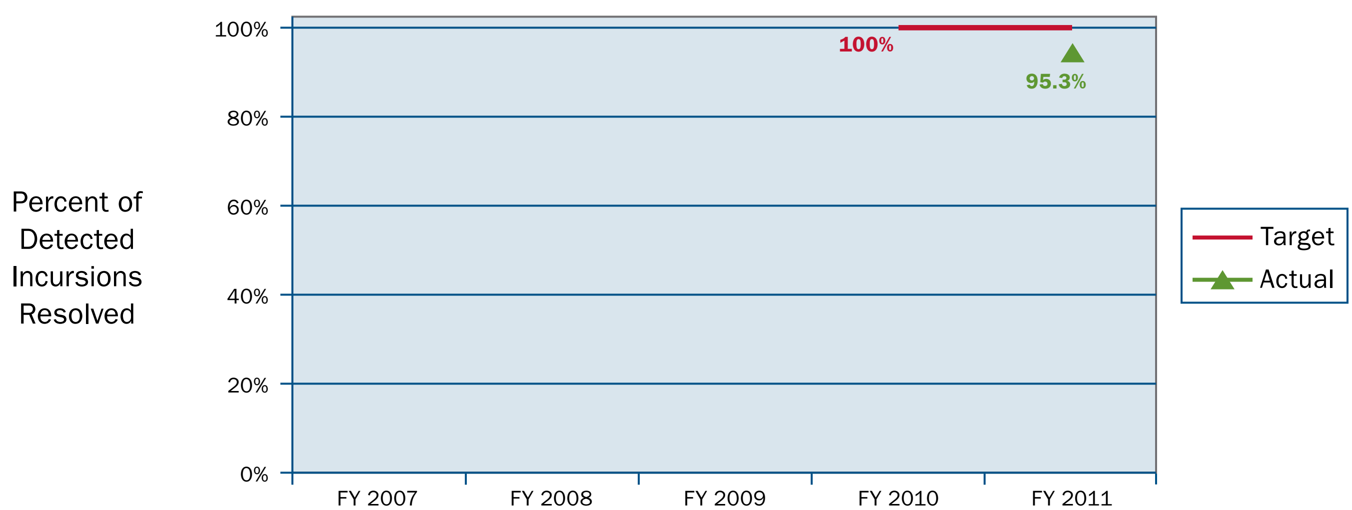
Performance Measure—Number of weapons seized on exit from the United States.					
Description	This measure provides the total number of illegal weapons seized during outbound inspection of exiting passengers and vehicles, both privately-owned and commercial.				
KEY HIGHLIGHTS					
Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Target	N/A	N/A	N/A	N/A	2,200
Actual	N/A	N/A	N/A	N/A	1,987
Explanation of FY 2011 Results	***Target Not Met***—Outbound weapons seizures vary substantially in size (number of weapons) and large weapons seizures are a relatively infrequent event. A downturn in the number of large weapons seizures in FY 2011 as compared to FY 2010, particularly during the second half of the year, significantly impacted the cumulative total number of weapons seized for the year. The increased deployment and use of hand-held LPR may have also contributed to this reduction.				
Recommended Action	CBP will continue to conduct surge-type Outbound enforcement operations to identify and seize weapons being transported out of the country illegally. CBP will work with other law enforcement agencies and both local and international partners to identify and disrupt outbound smuggling activities.				

Number of Weapons Seized on Exit from the United States



Performance Measure—Percent of detected conventional aircraft incursions resolved along all borders of the United States.					
Description	The measure represents the percent of conventional aircraft—once detected visually or by radar—that are suspected of illegal cross-border activity and are brought to a successful law enforcement resolution. In some cases, OAM assets are launched to interdict the aircraft. In most cases, resolution of the aircraft identity is made by the Air and Marine Operations Center (AMOC) working with interagency partners such as the Federal Aviation Administration (FAA). If legal, OAM has accomplished its goal to resolve the incursion. If not resolved, AMOC—working with our partners including OAM assets—could not identify the target and is thus considered illegal.				
KEY HIGHLIGHTS					
Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Target	N/A	N/A	N/A	N/A	100%
Actual	N/A	N/A	N/A	N/A	95.3%
Explanation of FY 2011 Results	***Target Not Met***—There were 236 conventional aircraft detected and originally classified as border incursions. 225 incursions were resolved and deemed legal. Eleven incursions were not identified and were considered illegal as a result.				
Recommended Action	OAM will evaluate and improve tactics, techniques, and procedures where possible in order to bring individuals that commit illegal incursions to a successful law enforcement resolution.				

Percent of Detected Conventional Aircraft Incursions Resolved Along All Borders of the United States



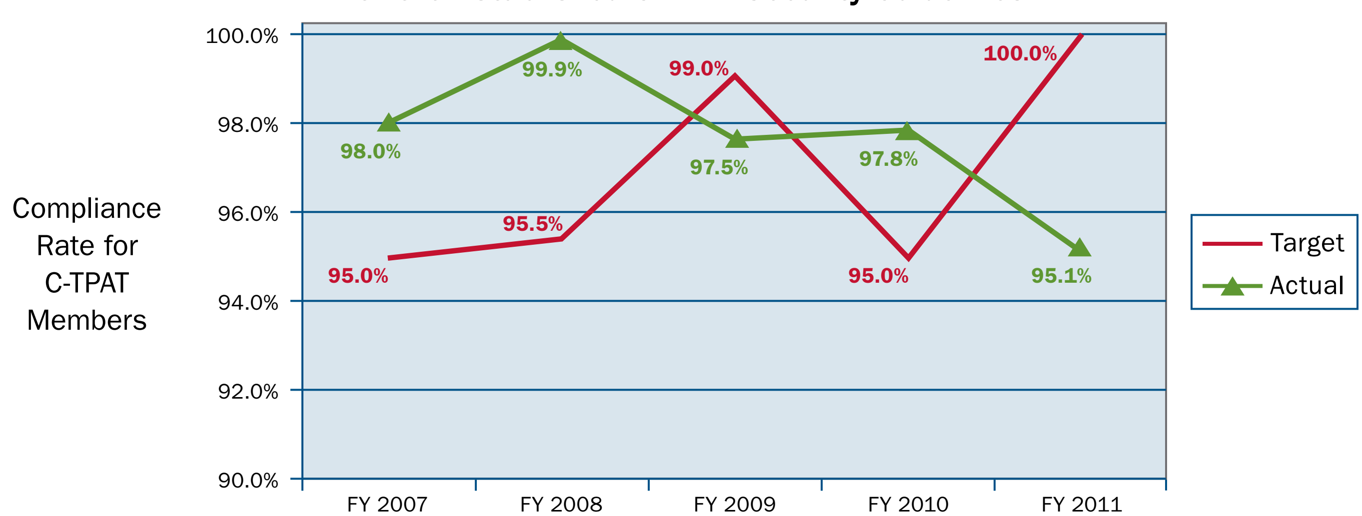
Mission Set 2: Securing and Expediting the Movement of People and the Flow of Goods

Performance Objective—Improve the targeting, screening, and apprehension or seizure of high-risk international travelers and cargo away from the physical border in order to prevent terrorist attacks and criminal activity while expediting the processing of legitimate travelers and cargo.

The measures aligned to this Mission Set are focused on showing CBP's effectiveness in preventing terrorist attacks and criminal activity while expediting the flow of people and goods. In order to achieve the performance objective, CBP has established several programs and initiatives. Established in 2001, C-TPAT is a voluntary Government-business initiative to build cooperative relationships that strengthen and improve overall international supply chain and U.S. border security. By C-TPAT members complying with established security standards, CBP can expedite members' shipments and focus on screening high-risk cargo. The "Compliance rate for Customs-Trade Partnership Against Terrorism (C-TPAT) members with the established C-TPAT security guidelines" shows the percent of C-TPAT members that were in compliance with the established security standards during their periodic validation. CBP has also established the CSI, which is intended to prevent and deter terrorist use of maritime containers while facilitating the movement of legitimate trade. CSI Officers at the foreign ports identify containers that pose a potential threat for terrorism. Once identified, CSI host Government officers examine those containers identified as posing a potential risk at the foreign ports while our CBP Officers observe. CSI allows the removal or mitigation of high-risk cargo from the supply chain prior to it entering the United States and decreases the associated costs to the United States by partnering with host Nations. The "Percent of requested cargo examinations conducted at foreign ports of origin in cooperation with host Nations under the Container Security Initiative" demonstrates the success CBP has had in mitigating potential threats away from the physical border of the United States. In addition, CBP has established revenue collection as a Priority Trade Issue (PTI). CBP collects over $30 billion annually, the second largest revenue generator for the U.S. Government. To avoid the full payment of lawfully owed duties and fees to the U.S. Government, importers are prone to use a variety of circumvention schemes. The "Percent of revenue directed by trade laws, regulations, and agreements successfully collected" shows how effective CBP was in the past year in collecting the revenue that was due to the United States.

Performance Measure—Compliance rate for Customs-Trade Partnership Against Terrorism (C-TPAT) members with the established C-TPAT security guidelines.					
Description	This measure provides the overall compliance rate achieved for all validations performed during the Fiscal Year. After acceptance into the Customs-Trade Partnership Against Terrorism (C-TPAT) program, all C-TPAT members must undergo a periodic validation in which CBP examiners visit company locations and verify compliance with an industry-specific set of CBP security standards and required security practices. These validations are prepared using a weighted scoring system that is used to develop an overall compliance rate for each company. Compliance with security guidelines enhances the security of cargo shipped to the United States.				
KEY HIGHLIGHTS					
Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Target	95.0%	95.5%	99.0%	95.0%	100.0%
Actual	98.0%	99.9%	97.5%	97.8%	95.1%
Explanation of FY 2011 Results	***Target Not Met***—The C-TPAT compliance rate for members with established C-TPAT security criteria decreased during FY 2011 as the program strengthened its validation process, which increased the number of companies suspended or removed following a validation. New suspension and removal guidelines following a validation were implemented and management oversight was increased and applied consistently at all levels.				
Recommended Action	C-TPAT partners include the largest companies in the country and the world, which have very large and complex production and shipping operations. Over the past two years, the C-TPAT security criteria were revised and strengthened considerably, which resulted in a significantly larger number of negative validation findings. C-TPAT is working with partner companies to explain the enhanced security criteria and ensure they understand the validation requirements.				

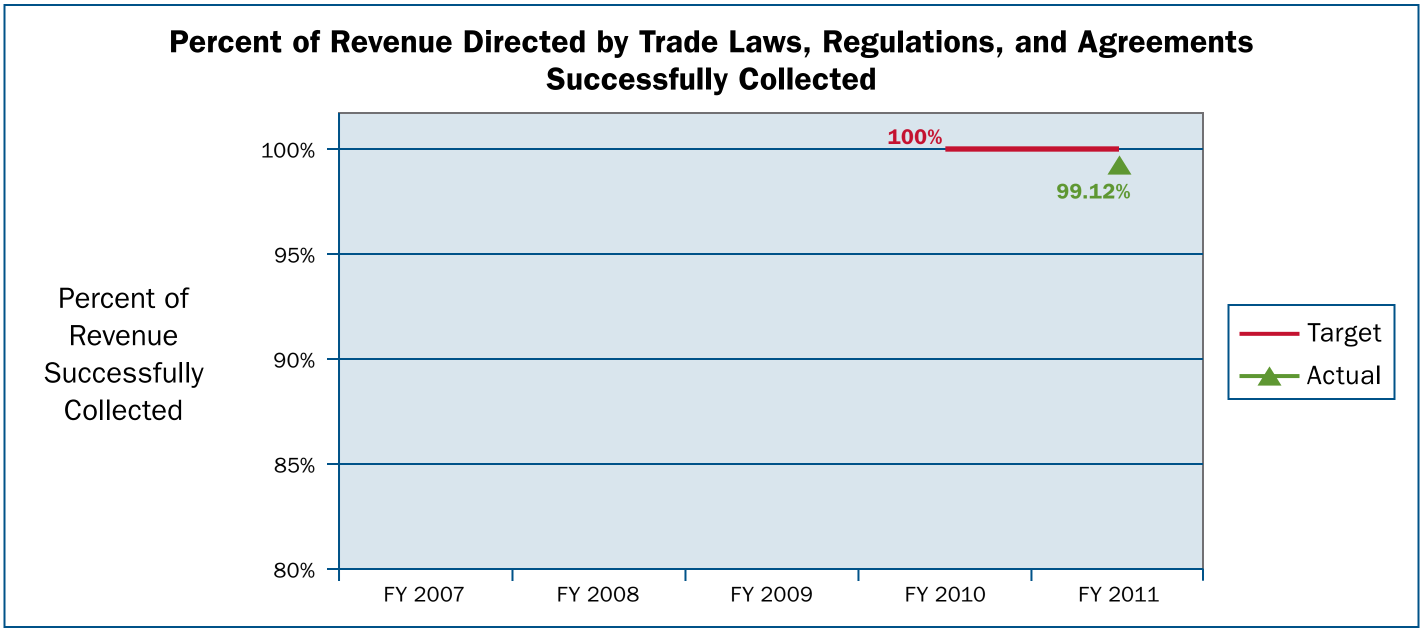
Compliance Rate for Customs-Trade Partnership Against Terrorism (C-TPAT) Members with the Established C-TPAT Security Guidelines



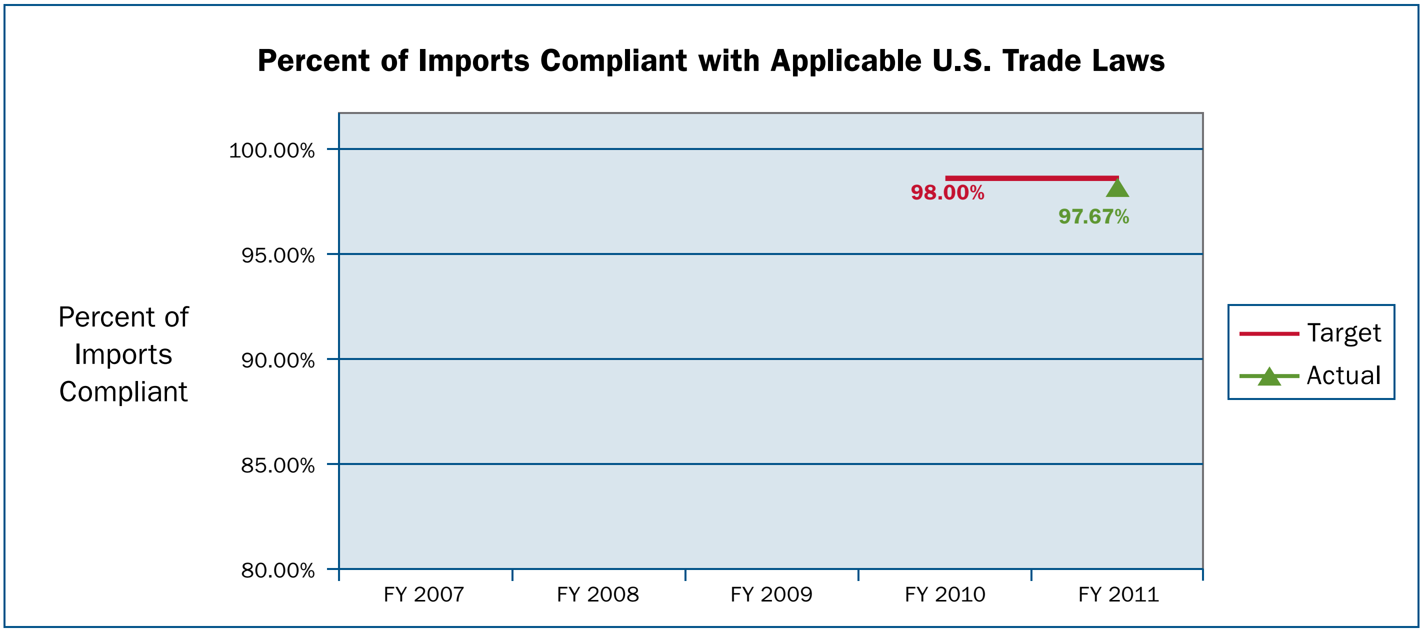
Performance Measure—Percent of requested cargo examinations conducted at foreign ports of origin in cooperation with host nations under the Container Security Initiative.	
Explanation of FY 2011 Results	***Target Not Met***—See page 58 for results and detailed discussion.

Performance Measure—Percent of cargo by value imported to the United States by participants in CBP trade partnership programs.	
Explanation of FY 2011 Results	***Target Met***—See page 59 for results and detailed discussion.

Performance Measure—Percent of revenue directed by trade laws, regulations, and agreements successfully collected.					
Description	This measure estimates the collected duties expressed as a percent of all collectable revenue due from commercial imports to the United States directed by trade laws, regulations, and agreements. The total collectable revenue is defined as total collection plus the estimated net under-collection (also called revenue gap or loss) due to non-compliance with U.S. trade laws and regulations. The revenue gap is a calculation of uncollected duties based on statistical sampling, expressed as both a dollar estimate and a percent of under-collections.				
KEY HIGHLIGHTS					
Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Target	N/A	N/A	N/A	N/A	100%
Actual	N/A	N/A	N/A	N/A	(Est.) 99.12%
Explanation of FY 2011 Results	***Target Not Met***—Statistics are preliminary. Final statistics will be available by the end of February, 2012. OT will align targeting efforts for identified High Risk areas that are contributing to the revenue short-fall.				
Recommended Action	OT will consider referring highly non-compliant importers to the National Targeting Center and/or Regulatory Audit Division for further review.				



Performance Measure—Percent of imports compliant with applicable U.S. trade laws.					
Description	This measure reports the percent of imports that are compliant with U.S. trade laws including customs revenue laws.				
KEY HIGHLIGHTS					
Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Target	N/A	N/A	N/A	N/A	98%
Actual	N/A	N/A	N/A	N/A	(Est.) 97.67%
Explanation of FY 2011 Results	***Target Not Met***—Statistics are preliminary. Final statistics will available by the end of February, 2012. OT will align targeting efforts for identified High Risk areas that are contributing to the lower compliance rate.				
Recommended Action	Office of Trade will consider referring highly non-compliant importers to the National Targeting Center and/or Regulatory Audit Division for further review.				



Mission Set 3: Sustaining Investment in People and Capabilities

Performance Objective—Improve mission effectiveness and efficiency by integrating, unifying, and leveraging resources to support CBP's operational offices.

While the activities that fall under this Mission Set are important to CBP's success, CBP does not have GPRA or Strategic measures that align to this Mission Set due to the mission support nature of its activities. Operational measures exist within this Mission Set and are used in internal decision-making processes.

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Financial Section

Message from the Chief Financial Officer

Few missions in the United States Federal Government are more important than U.S. Customs and Border Protection's (CBP), as the men and women of CBP work continuously to protect our nation from dangerous people and dangerous goods that would cause harm to our way of life. The Office of Administration stands with other offices in CBP to help accomplish the agency's mission by providing the resources and facilities necessary to ensure mission success. CBP is charged with the dual mission of protecting our nation's borders, while facilitating legitimate trade and travel. We balance this responsibility with an effective management infrastructure that fosters the highest standards of integrity, while also maximizing our partnerships at home and abroad.

The purpose of this report is to update you on the financial performance of our Agency, and on our stewardship of CBP's resources through the integration of mission accomplishments.

I can provide reasonable assurance that the objectives of Section 2 (Management Controls) and Section 4 (Financial Management Systems) of the Federal Managers' Financial Integrity Act have been achieved. We also have room for improvement. We are correcting issues identified by internal management evaluations in support of CBP's Management Assurances, as well as auditor-identified weaknesses in internal controls. Recurring issues in custodial revenue management need to be resolved and emerging challenges, such as managing and accounting for more complex property, plant, and equipment, must be addressed in the upcoming year. CBP is committed to addressing all of our financial management challenges by continuing to implement corrective measures that improve our oversight and accountability.

We are accountable to Congress and the American taxpayer to explain how we use the money appropriated to us. As part of our responsibilities, we have collected $37.2 billion in revenue, and we must be sound custodians of this revenue. Our responsibilities are substantial, and our budget is finite. Consequently, we must have sound financial management to provide informed decision making in order to make the best use of our resources.

A benchmark of financial management success is to obtain an audit opinion from a third party that concludes that our financial statements are fairly presented and conform to generally accepted accounting principles. Once again, CBP has received such an opinion for Fiscal Year 2011—an unqualified opinion—on its full set of financial statements. The unqualified opinion on our financial statements is another positive reflection that CBP continues to demonstrate discipline and accountability in the execution of our fiscal stewardship responsibilities.

Message from the Chief Financial Officer

Solid financial management relies on several critical elements, most notably a capable workforce guided by tested practices and processes and supported by sound financial management systems. We have a solid foundation in each of these areas and continue to build upon them each year.

While processes and systems are important, CBP and the Office of Administration rely on our employees first and foremost to get the job done. I would like to thank the men and women of this organization for the hard work they do every day. Due to these efforts, we continue to grow, improve, and remain successful in the face of our collective challenge. Our goals remain to provide timely, reliable, and useful financial management information to Congress and the American public and to enable the managers across CBP to make smart business decisions.

Deborah J. Schilling, Chief Financial Officer
U.S. Customs and Border Protection

Financial Statements

Introduction

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

- The **Consolidated Balance Sheets** present the property owned by CBP (assets), amounts owed by CBP (liabilities), and the amounts of the difference (net position).
- The **Consolidated Statements of Net Cost** present the net cost of the major CBP programs as they relate to the goals of the 2009–2014 Strategic Plan.
- The **Consolidated Statements of Changes in Net Position** represent those accounting transactions that caused the net position of the balance sheet to change from the beginning to the end of the reporting period. CBP's net cost of operations serves to reduce the net position.
- The **Combined Statements of Budgetary Resources** illustrate how and in what amounts budgetary resources were made available, as well as their status at the end of FY 2011.
- The **Consolidated Statements of Custodial Activity** present non-entity (financial activity conducted by CBP on behalf of others) revenue and refunds using a modified cash basis.

U.S. Customs and Border Protection
Consolidated Balance Sheets
As of September 30, 2011 and 2010
(in Thousands)

	2011	2010
ASSETS (Note 2)		
Intra-governmental:		
Fund Balance with Treasury (Note 3)	$ 6,991,419	$ 7,686,586
Accounts Receivable	14,519	14,523
Advances and Prepayments (Note 11)	155,073	235,285
Total Intra-governmental	7,161,011	7,936,394
Cash and Other Monetary Assets (Note 4)	4,172	3,362
Accounts Receivable, Net (Note 5)	142,977	153,971
Taxes, Duties and Trade Receivables, Net (Note 6)	2,731,765	2,458,647
Inventory and Related Property, Net (Note 7)	171,785	159,021
General Property, Plant and Equipment, Net (Note 9)	6,022,928	5,681,454
Advances and Prepayments (Note 11)	79	108
TOTAL ASSETS	$ 16,234,717	$ 16,392,957
Stewardship PP&E (Note 10)		
LIABILITIES (Note 12)		
Intra-governmental:		
Accounts Payable	$ 299,955	$ 319,445
Other		
Due to the Treasury General Fund	2,817,065	2,462,178
Accrued FECA Liability (Note 12)	147,352	148,988
Other Employment Liabilities (Note 12)	2,076	5,588
Employee Benefits and Taxes	110,827	95,593
Advances From Others	8,531	22,368
Total Intra-governmental	3,385,806	3,054,160
Accounts Payable	388,033	440,601
Environmental & Disposal Liabilities (Note 12 and 14)	16,472	15,667
Other		
Accrued Payroll and Benefits (Note 13)	1,572,106	1,462,235
Refunds Payable (Note 15)	131,413	129,147
Injured Domestic Industries (Note 15)	431,545	546,916
Liabilities for Deposit Accounts & Antidumping/Countervailing Duties	155,667	132,108
Legal Contingent Liabilities (Note 17)	386,266	380,984
TOTAL LIABILITIES	$ 6,467,308	$ 6,161,818
Commitments and Contingencies (Note 17)		
NET POSITION:		
Unexpended Appropriations	4,253,612	5,104,867
Cumulative Results of Operations – Earmarked Funds (Note 18)	1,000,085	890,204
Cumulative Results of Operations – Other Funds	4,513,712	4,236,068
TOTAL NET POSITION	$ 9,767,409	$ 10,231,139
TOTAL LIABILITIES AND NET POSITION	$ 16,234,717	$ 16,392,957

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

U.S. Customs and Border Protection
Consolidated Statements of Net Cost
For the Years Ended September 30, 2011 and 2010
(in Thousands)

	2011	2010
Office of Field Operations Border Security Inspections and Trade Facilitation at Ports of Entry		
Gross Cost	$ 6,519,881	$ 6,571,040
Less: Earned Revenue	155,789	166,062
Net Program Costs	6,364,092	6,404,978
Border Security and Control Between Ports of Entry		
Gross Cost	4,887,323	4,478,145
Less: Earned Revenue	116,780	113,171
Net Program Costs	4,770,543	4,364,974
Border Security Fencing, Infrastructure and Technology		
Gross Cost	91,204	128,998
Less: Earned Revenue	2,179	3,260
Net Program Costs	89,025	125,738
Automation Modernization		
Gross Cost	218,644	267,640
Less: Earned Revenue	5,224	6,764
Net Program Costs	213,420	260,876
Air and Marine Operations		
Gross Cost	607,865	610,026
Less: Earned Revenue	14,524	15,417
Net Program Costs	593,341	594,609
Total Gross Cost	12,324,917	12,055,849
Less: Total Earned Revenue	294,496	304,674
Net Cost of Operations (Notes 19 and 20)	$ 12,030,421	$ 11,751,175

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

U.S. Customs and Border Protection
Consolidated Statement of Changes In Net Position
For the Year Ended September 30, 2011
(in Thousands)

	FY 2011		
	Earmarked Funds	**All Other Funds**	**Consolidated Total**
Cumulative Results of Operations:			
Beginning Balances	$ 890,204	$ 4,236,068	$ 5,126,272
Budgetary Financing Sources:			
Appropriations Used	--	8,825,940	8,825,940
Non-exchange Revenue (Note 21)	497,951	7,730	505,681
Transfers In/Out Without Reimbursement (Note 21)	(1,666,692)	1,864,347	197,655
Other Financing Sources (Non-Exchange):			
Transfers In/Out Without Reimbursement	--	40,556	40,556
Imputed Financing	--	710,128	710,128
Other (Note 21)	2,208,076	(70,090)	2,137,986
Total Financing Sources	1,039,335	11,378,611	12,417,946
Net Cost of Operations	(929,454)	(11,100,967)	(12,030,421)
Net Change	109,881	277,644	387,525
Cumulative Results of Operations	$ 1,000,085	$ 4,513,712	$ 5,513,797
Unexpended Appropriations:			
Beginning Balance	$ --	$ 5,104,867	$ 5,104,867
Budgetary Financing Sources:			
Appropriations Received (Note 23)	--	8,341,154	8,341,154
Appropriations Transferred In/Out	--	6,196	6,196
Other Adjustments	--	(372,665)	(372,665)
Appropriations Used	--	(8,825,940)	(8,825,940)
Total Budgetary Financing Sources	--	(851,255)	(851,255)
Total Unexpended Appropriations	$ --	$ 4,253,612	$ 4,253,612
Net Position	$ 1,000,085	$ 8,767,324	$ 9,767,409

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

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

	FY 2010		
	Earmarked Funds	**All Other Funds**	**Consolidated Total**
Cumulative Results of Operations:			
Beginning Balances	$ 992,257	$ 4,143,883	$ 5,136,140
Budgetary Financing Sources:			
Appropriations Used	--	8,521,334	8,521,334
Non-exchange Revenue (Note 21)	420,492	5,332	425,824
Transfers In/Out Without Reimbursement (Note 21)	(1,493,361)	1,692,574	199,213
Other Financing Sources (Non-Exchange):			
Donations and Forfeitures of Property	--	3,366	3,366
Transfers In/Out Without Reimbursement	--	75,242	75,242
Imputed Financing	--	570,393	570,393
Other (Note 21)	2,003,593	(57,658)	1,945,935
Total Financing Sources	930,724	10,810,583	11,741,307
Net Cost of Operations	(1,032,777)	(10,718,398)	(11,751,175)
Net Change	(102,053)	92,185	(9,868)
Cumulative Results of Operations	$ 890,204	$ 4,236,068	$ 5,126,272
Unexpended Appropriations:			
Beginning Balance	$ --	$ 4,748,349	$ 4,748,349
Budgetary Financing Sources:			
Appropriations Received (Note 23)	--	9,046,183	9,046,183
Appropriations Transferred In/Out	--	(9,733)	(9,733)
Other Adjustments	--	(158,598)	(158,598)
Appropriations Used	--	(8,521,334)	(8,521,334)
Total Budgetary Financing Sources	--	356,518	356,518
Total Unexpended Appropriations	$ --	$ 5,104,867	$ 5,104,867
Net Position	$ 890,204	$ 9,340,935	$ 10,231,139

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

U.S. Customs and Border Protection
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2011 and 2010
(in Thousands)

	2011	2010
Budgetary Resources:		
Unobligated Balance, Brought Forward, October 1:	$ 2,646,476	$ 3,065,976
Recoveries of Prior Year Unpaid Obligations	607,416	458,013
Budget Authority		
Appropriation (Note 23)	12,424,421	12,943,996
Spending Authority from Offsetting Collections		
Earned		
Collected	1,464,638	1,586,308
Change in Receivables from Federal Sources	1,156	(20,893)
Change in Unfilled Customer Orders		
Advance Received	(697)	1,054
Without Advance from Federal Sources	(9,548)	(6,794)
Expenditure Transfers from Trust Funds	3,226	3,226
Subtotal	13,883,196	14,506,897
Nonexpenditure Transfers, Net	319,980	296,570
Temporarily Not Available Pursuant to Public Law	(3,110)	--
Permanently Not Available	(457,270)	(536,441)
Total Budgetary Resources	$ 16,996,688	$ 17,791,015
Status of Budgetary Resources:		
Obligations Incurred: (Note 22)		
Direct	$ 13,240,031	$ 13,554,026
Reimbursable	1,488,285	1,590,513
Subtotal	14,728,316	15,144,539
Unobligated Balance:		
Apportioned	3,190	63,547
Unobligated Balance Not Available	2,265,182	2,582,929
Total Status of Budgetary Resources	$ 16,996,688	$ 17,791,015
Change in Obligated Balances:		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	$ 5,061,440	$ 4,569,207
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(172,288)	(199,975)
Total Unpaid Obligated Balance, Net	4,889,152	4,369,232
Obligations Incurred, Net	14,728,316	15,144,539
Gross Outlays	(14,469,173)	(14,194,293)
Recoveries of Prior Year Unpaid Obligations, Actual	(607,416)	(458,013)
Change in Uncollected Customer Payments from Federal Sources	8,392	27,687
Obligated Balance, Net, End of Period		
Unpaid Obligations	4,713,167	5,061,440
Uncollected Customer Payments from Federal Sources	(163,896)	(172,288)
Total, Unpaid Obligated Balance, Net, End of Period	4,549,271	4,889,152
Net Outlays:		
Gross Outlays	14,469,173	14,194,293
Offsetting Collections	(1,467,167)	(1,590,588)
Distributed Offsetting Receipts	(2,764,695)	(2,468,799)
Total Net Outlays	$ 10,237,311	$ 10,134,906

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

U.S. Customs and Border Protection
Consolidated Statements of Custodial Activity
For the Years Ended September 30, 2011 and 2010
(in Thousands)

	2011	2010
Revenue Activity (Note 27):		
Sources of Cash Collections:		
Duties	$ 29,253,905	$ 25,283,569
User Fees	1,513,925	1,263,574
Excise Taxes	2,893,631	2,879,796
Fines and Penalties	62,163	61,811
Interest	48,540	5,487
Miscellaneous	114,375	14,397
Total Cash Collections	33,886,539	29,508,634
Accrual Adjustments (+/-)	351,197	637,407
Total Custodial Revenue	$ 34,237,736	$ 30,146,041
Disposition of Collections:		
Transferred to Others:		
Treasury General Fund Accounts	$ 22,468,065	$ 19,714,470
U.S. Department of Agriculture	9,869,544	8,490,353
Other Federal Agencies	28,359	27,215
Government of Puerto Rico	7,369	--
Government of the U.S. Virgin Islands	1,946	466
Non-federal Other	111,370	4,563
(Increase)/Decrease in Amounts Yet to be Transferred	403,455	629,369
Refunds and Drawbacks (Note 27)	1,347,628	1,279,605
Total Disposition of Collections	$ 34,237,736	$ 30,146,041
Net Custodial Activity	$ --	$ --

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

Notes to Financial Statements

1. Significant Accounting Policies

Reporting Entity

U.S. Customs and Border Protection (CBP) was created on March 1, 2003, and is a component of the U.S. Department of Homeland Security (DHS). CBP is the unified border agency whose priority mission is the prevention of terrorists and terrorists' weapons from entering the United States. In addition to its priority mission, CBP works to protect America and its citizens by carrying out its traditional missions more effectively using innovative approaches. These traditional missions include enforcing United States trade, immigration and other laws at the borders. Trade-related mission activities include protecting American businesses from theft of their intellectual property and unfair trade practices; regulating and facilitating international trade; collecting import duties; enforcing trade laws related to admissibility; regulating trade practices to collect the appropriate revenue; and maintaining export controls. Other traditional missions include controlling the borders by apprehending individuals attempting to enter the United States illegally; stemming the flow of illegal drugs and other contraband; protecting agriculture and economic interests from harmful pests and diseases; processing all people, vehicles and cargo entering the United States; and coordinating with the Department of Defense and others to protect the National Capital Region.

Substantially all duty, tax, and fee revenues collected by CBP are remitted to various general fund accounts maintained by the U.S. Department of the Treasury (Treasury) and U.S. Department of Agriculture. Treasury further distributes these revenues to other Federal agencies in accordance with various laws and regulations. CBP transfers the remaining revenue (generally less than 1 percent of revenues collected) directly to other Federal agencies, the Government of Puerto Rico and the U.S. Virgin Islands. Refunds of revenues collected from import/export activity are recorded in separate accounts established for this purpose and are funded through a permanent indefinite appropriation. These activities reflect the non-entity or custodial responsibilities that CBP, as an agency of the Federal Government, has been authorized by law to enforce.

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

Basis of Accounting and Presentation

These financial statements have been prepared from CBP accounting records in conformity with generally accepted accounting principles (GAAP). The Federal Accounting Standards Advisory Board (FASAB), which was designated the official accounting standard-setting body of the Federal Government by the American Institute of Certified Public Accountants, is responsible for identifying the GAAP hierarchy for Federal reporting entities. FASAB has identified the hierarchy to be used in Statement of Federal Financial Accounting Standards (SFFAS) 34,

The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board.

The statements consist of the Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and Consolidated Statement of Custodial Activity. All statements are prepared in accordance with Office of Management and Budget (OMB) Circular A-136.

These financial statements should be read with the understanding that CBP is a component of a sovereign entity; for which budgetary resources cannot be liquidated without the enactment of an appropriation, and that payment of liabilities other than for contracts can be abrogated by the sovereign entity.

These financial statements, with respect to the Consolidated Balance Sheet, Consolidated Statement of Net Cost and Consolidated Statement of Changes in Net Position, are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. The Combined Statement of Budgetary Resources is reported using the budgetary basis of accounting. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. It generally differs from the accrual basis of accounting in that obligations are recognized when new orders are placed, contracts awarded and services received that will require payments during the same or future period. CBP non-entity revenue and refunds are reported on the Consolidated Statement of Custodial Activity using a modified cash basis. With this method, revenue from cash collections are reported separately from receivable accruals and cash disbursements are reported separately from payable accruals.

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

Earmarked Funds

SFFAS No. 27, ***Identifying and Reporting Earmarked Funds***, requires CBP to separate dedicated collections into two categories, earmarked and fiduciary activity. See Note 18, Earmarked Funds, for specific required disclosures related to CBP's earmarked funds.

CBP has program management responsibility for the following earmarked funds:

Appropriation	Title
70X5087	CBP - Immigration User Fees
70X5089	Land Border Inspection Fees
70X5451	Enforcement Fines Account
70X5543	International Registered Traveler

70X5595	Electronic Systems for Travel Authorization Fees
70X5694	Small Airport User Fees
70X5695	Customs User Fees Account
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, 2011 and 2010 from which CBP is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law. Non-entity Fund Balance with Treasury represents funds available to pay refunds and drawback claims of duties, taxes, fees, and other non-entity amounts to be distributed to the Treasury General Fund and other Federal accounts in a future period.

A timing difference occurs when cash is received and applied to a specific revenue type in one period, and the deposit occurs in a future period. Monetary assets 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 travel and salary advances and 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. By law, collections of these receivables can be credited to the appropriation accounts from which the related costs were paid. These receivables are net of amounts deemed uncollectible which are determined by considering the debtor's current ability to pay, payment record, as well as the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity. The user fee receivable is based on a calculated estimate using historical user fee collections.

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).

Title 8 of the United States Code, chapter 12, subchapter II, part IX, section 1356, authorizes CBP to collect immigration user fees for inspection or pre-inspection of passengers arriving at a port of entry in the United States (as defined in Title 8, chapter 12, subchapter I, section 1101) aboard a commercial aircraft and commercial vessel (some exceptions apply). Receivables accrue for commercial airline and commercial vessel user fees on a quarterly basis. Payment is due any time within thirty-one days after the quarter in which the fees are collected, except the July and August fees collected from airline passengers shall be made ten days before the end of the fiscal year. Each quarterly payment shall include any collection made in the preceding quarter that was not remitted with the previous payment. 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.

Due to the Treasury General Fund

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

Taxes, Duties and Trade Receivables

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

Inventory and Related Property

Inventory and Related Property consists of aircraft, marine, and Office of Technology Innovation & Acquisition (OTIA), formerly Secure Border Initiative (SBI), operating materials and supplies to be used in CBP's operations. Aircraft and OTIA 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 disposition of the seized items are determined. Non-prohibited seized property, including monetary instruments, real property and tangible personal property of others in the actual or constructive possession of CBP will be transferred to the Treasury Forfeiture Fund and is not presented in the accompanying CBP Consolidated Balance Sheet or Note 8, Seized and Forfeited Property.

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

General Property, Plant, and Equipment

CBP capitalizes property, plant and equipment, excluding land, with an acquisition value of $50 thousand or greater, and a useful life of two years or greater. Effective October 1, 2010, CBP decreased its land capitalization threshold from $50 thousand to zero to be consistent with DHS policy.

Expenditures for normal repairs and maintenance are charged to expense as incurred. When expenditures greater than $50 thousand extend an asset's useful life they are capitalized.

Depreciation and amortization are computed using the straight line method over the estimated useful lives of the assets ranging from 2 to 30 years for equipment and software, 2 to 30 years for leasehold improvements, and 5 to 40 years for buildings, structures and land improvements. Amortization of capitalized software begins on the date of acquisition if purchased or when the module or component has been successfully tested if contractor or internally developed.

The useful life ranges for improvements to land and vehicles in the PP&E note have been updated to reflect the CBP useful life policy.

Accounts Payable

A liability is recorded for an accounts payable accrual from commercial/travel activities. A portion of this liability is estimated. This estimate is based on a ratio using historical subsequent disbursements and undelivered orders, applying the ratio to the undelivered orders as of September 30, 2011 and 2010.

Accrued Annual, Sick, and Other Leave and Compensatory Time

Annual leave, compensatory time and other leave time are accrued when earned. The accrual is presented as a component of the payroll and benefits liability in the Consolidated Balance Sheet and is adjusted for changes in compensation rates and reduced for annual leave taken. Sick leave is expensed when used. For additional information see Note 13, Accrued Payroll and Benefits.

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

Most CBP employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS). CBP contributes 7 percent of base pay for regular employees, and 7.5 percent for law enforcement agents. Employees hired after December 31, 1983 are automatically covered by the Federal Employees' Retirement System (FERS) and Social Security. A primary feature of FERS is that it offers a savings plan to which CBP automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, CBP also contributes the employees' matching share for Social Security. For the FERS basic benefit, CBP contributes 11.7 percent of base pay for regular employees and 25.7 percent for law enforcement agents. The pay base for determining CBP contributions to CSRS and FERS for inspectors and canine officers include regular pay and up to a maximum of $17.5 thousand in certain overtime earnings for FY 2011 and 2010. CBP recognizes the full costs of its employees' pension benefits; however, the liability associated with these costs is recognized by the Office of Personnel Management (OPM).

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

A liability for other post-employment benefits, which includes all types of benefits to former or inactive (but not retired) employees, their beneficiaries, and covered dependents, is also recognized. For additional information see Note 13, Accrued Payroll and Benefits.

Workers' Compensation

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The 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. The liability under which unemployment compensation is recorded is entitled Other Employment Liabilities; the liability under which unfunded FECA is recorded is entitled Accrued FECA Liability and actuarial FECA is recorded in Accrued Payroll and Benefits in the accompanying Consolidated Balance Sheet.

Additionally, the actuarial liability due to the public includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Based on information provided by DOL, DHS allocates the actuarial liability to its components and department offices based on the payment history for the components and department offices. The accrued liability is not covered by budgetary resources and will require future funding. For additional information see Note 13, Accrued Payroll and Benefits.

Unexpended Appropriations

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

Cumulative Results of Operations

Cumulative Results of Operations primarily represent the excess of user fee revenues over related expenses. It also reflects the net investment in Property, Plant and Equipment, Inventory and Related Property held for use, and transfers in of equipment, materials and supplies from other Federal agencies without reimbursement. Also, included as a reduction in Cumulative Results of Operations, are liabilities incurred, which will require funding from future appropriations, such as accumulated annual and other leave earned but not taken, accrued workers' compensation and contingent liabilities. The portion of Cumulative Results of Operations attributable to earmarked funds is shown separately on both the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position. For additional information see Note 18, Earmarked Funds.

Revenue, Financing Sources, and Expense Recognition

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

The FY 2011 and 2010 activities reported on the Consolidated Statement of Net Cost contain all resource costs assigned from CBP cost centers. An activity-based costing system derives an estimate of the agency's cost by activity performed. The key driver behind CBP's allocation of cost to activity is labor hours. Each pay period, all CBP personnel log their time to one or more of several hundred distinct activities. Time recorded by operational cost center is also used to assign mission support and overhead costs to field operational cost center activities. The time and attendance system used to record personnel labor hours is COSS (Customs Overtime Scheduling System).

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

- ***Duties:*** amounts collected on imported goods.
- ***User fees:*** amounts collected for certain services as provided by law.
- ***Excise taxes***: amounts collected on imported distilled spirits, wines and tobacco products, and other miscellaneous taxes collected.
- ***Fines and penalties:*** amounts collected for violations of laws and regulations.
- ***Refunds:*** payments made to importers/exporters are primarily identified when the import entries are liquidated, a process in which CBP makes final determination of duties, taxes, fees and interest owed on each entry and compares it to the estimated amount previously determined and paid by the importer/broker. Interest is included in the refund generally for the period of time between when the estimated amounts were received from the importer/broker and the time the entry is liquidated. When a refund is identified prior to liquidation, the refund from this remittance is funded from the duty, tax or fee collections rather than from the Refunds and Drawback Account.
- ***Drawback:*** a remittance, in whole or in part, of duties, taxes or fees. Drawback typically occurs when the imported goods on which duties, taxes or fees have been previously paid are subsequently exported from the United States or destroyed prior to entering the commerce of the United States. Depending on the type of claim, the claimant has up to six or eight years from the date of importation to file for drawback.

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

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

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

Use of Estimates

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

Taxes

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

Reclassification

In FY 2011, CBP made certain reclassifications to FY 2010 balances to conform to FY 2011 presentation.

2. Non-Entity Assets

Non-entity assets as of September 30, 2011 and 2010, consist of the following (in thousands):

	2011	2010
Intra-Governmental:		
Fund Balance with Treasury (Note 3)	$ 803,540	$ 815,856
Public		
Cash and Other Monetary Assets (Note 4)	3,844	2,734
Accounts Receivable, Net	476	425
Taxes, Duties and Trade Receivables, Net (Note 6)	2,731,765	2,458,647
Total Public	2,736,085	2,461,806
Total Non-entity Assets	3,539,625	3,277,662
Total Entity Assets	12,695,092	13,115,295
Total Assets	$ 16,234,717	$ 16,392,957

Non-entity Fund Balance with Treasury as of September 30, 2011 and 2010 includes approximately $152.9 million and $129.7 million (in deposit fund) in duties collected by CBP for U.S. Virgin Islands, U.S. Department of Agriculture and antidumping/countervailing duties and $512.6 million and $546.9 million for Injured Domestic Industries as of September 30, 2011 and 2010, respectively. These assets are directly offset with liabilities as of September 30, 2011 and 2010.

Non-entity Fund Balance with Treasury consists of special and deposit funds, permanent appropriations, and miscellaneous receipts that are available to pay non-entity liabilities. Taxes, Duties and Trade receivables from the public represent amounts due from importers for goods and merchandise imported to the United States and, upon collection, will be available to pay the accrued intra-governmental liability Due to the Treasury General Fund, which equaled $2.8 billion and $2.5 billion as of September 30, 2011 and 2010.

3. Fund Balance with Treasury

Fund Balance with Treasury as of September 30, 2011 and 2010 consists of the following (in thousands):

2011	Entity	Non-Entity	Total
Trust Funds	$ 290	$ --	$ 290
Special Funds	932,906	512,645	1,445,551
General Funds	5,249,869	137,993	5,387,862
Other Funds	3,111	--	3,111
Deposit Funds	1,703	152,902	154,605
Total	$ 6,187,879	$ 803,540	$ 6,991,419

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

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

Special funds are receipt funds used for specific purposes. Entity amounts comprising the special fund balances result from CBP authority to assess and collect passenger and conveyance-related user fees, CBP authority to assess and collect fees associated with services performed at certain small airports or other facilities, and CBP authority to retain amounts needed to offset costs associated with collecting duties, taxes, and fees for the Government of Puerto Rico. As of September 30, 2011 and 2010, CBP User Fees account includes approximately $714.3 million and $714.7 million, respectively; CBP Services at Small Airports account contained approximately $15.9 million and $16.8 million, respectively; Refunds, Transfers and Expenses of Operation of Puerto Rico account contained approximately $51.9 million and $39.3 million, respectively; and Immigration User Fees of $95.0 million and $18.4 million, respectively. Non-entity fund balance represents amounts collected in connection with antidumping and countervailing duties of $512.6 million and $546.9 million as of September 30, 2011 and 2010, respectively. Of which $431.5 million and $546.9 million are eligible for payment to qualifying Injured Domestic Industries as of September 30, 2011 and 2010, respectively, the remaining amount is Due to the Treasury General Fund.

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

The entity deposit fund balance represents amounts received as an advance that are not accompanied by an order. Once the order is received the deposit fund balance is decreased. Deposit funds represent amounts received as an advance that are not accompanied by an order and include non-entity collections.

Status of Fund Balance with Treasury as of September 30, 2011 and 2010 consists of the following (in thousands):

2011	**Entity**	**Non-Entity**	**Total**
Unobligated Balance			
Available	$ 3,000	$ --	$ 3,000
Unavailable	1,752,537	512,645	2,265,182
Obligated Balance not yet Disbursed	4,411,278	137,993	4,549,271
Non-Budgetary FBWT	21,064	152,902	173,966
Total	$ 6,187,879	$ 803,540	$ 6,991,419

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

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 $79.7 million and $377.8 million for indefinite no-year authority and retained $138.1 million and $130.1 million in authority for obligations pursuant to public law during both the years ending September 30, 2011 and 2010.

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, 2011, CBP canceled $80.7 million from FY 2006 annual appropriations. As of September 30, 2010, CBP canceled $58.6 million from FY 2005 annual appropriations.

4. Cash and Other Monetary Assets

Cash and Other Monetary Assets as of September 30, 2011 and 2010, consist of the following (in thousands):

2011	Entity	Non-Entity	Total
Imprest Funds	$ 190	$ --	$ 190
Undeposited Collections	138	3,844	3,982
Monetary Assets	--	--	--
Total	$ 328	$ 3,844	$ 4,172

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

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

5. Accounts Receivable, Net

Receivables with the public as of September 30, 2011 and 2010 are as follows (in thousands):

	2011		
Receivable Category	**Gross Receivable**	**Amounts Uncollectible**	**Total Net Receivables**
Reimbursable Services	$ 5,953	$ --	$ 5,953
Customs User Fees	101,789	(4,035)	97,754
Immigration User Fees	54,339	(15,069)	39,270
Total	$ 162,081	$ (19,104)	$ 142,977

	2010		
Receivable Category	**Gross Receivable**	**Amounts Uncollectible**	**Total Net Receivables**
Reimbursable Services	$ 3,907	$ --	$ 3,906
Customs User Fees	95,361	(2,201)	93,160
Immigration User Fees	72,091	(15,187)	56,905
Total	$ 171,359	$ (17,388)	$ 153,971

6. Taxes, Duties, and Trade Receivables, Net

Receivables as of September 30, 2011 and 2010 are as follows (in thousands):

Receivable Category	2011 Gross Receivable	2011 Amounts Uncollectible	2011 Total Net Receivables
Duties	$ 2,352,720	$ (147,551)	$ 2,205,169
Excise Taxes	164,325	(8,349)	155,976
User Fees	148,479	(2,150)	146,329
Fines/Penalties	437,141	(350,518)	86,623
Interest	453,070	(405,266)	47,804
Antidumping/Countervailing Duties	885,087	(795,299)	89,788
Refunds and Drawback	657	(581)	76
Total	$ 4,441,479	$ (1,709,714)	$ 2,731,765

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

CBP assesses duties, taxes and fees on goods and merchandise brought into the United States from foreign countries. At the time importers bring merchandise into the United States, they are required to file CBP entry documents. Generally, within 10 working days after CBP releases the merchandise into the U.S. commerce, the importer is to submit an entry document with payment of estimated duties, taxes and fees. CBP allows periodic monthly payment that requires payment of estimated duties, taxes and fees on the 15th work day of the month following release. A receivable of $2.4 billion and $2.2 billion was recorded for 1,004,970 entries and 993,375 entries for merchandise released into commerce on or before September 30, 2011 and 2010, respectively. It is CBP's policy to track and demand payment of unpaid estimated duties, taxes and fees receivable amounts by establishing a liquidated damage case which generally results in a fine and penalty type receivable.

A fine or penalty is established when a violation of import/export law is discovered. CBP assesses a liquidated damage or penalty for these cases to the maximum extent of the law. After receiving the notice of assessment, the importer or surety has 60 days to either file a petition requesting a review of the assessment or make payment of the assessed amount. Until this process has been completed, CBP records an allowance on fines and penalties of approximately 80.5 percent of the total assessment based on historical experience of fines and penalties mitigation and collection. Duties and taxes receivable are non-entity assets for which there is an offsetting liability due to the Treasury General Fund.

7. Inventory and Related Property, Net

Operating Materials and Supplies

Operating Materials and Supplies consist of parts and materials to repair and maintain CBP aircraft, vessels, and OTIA projects used for enforcement activities. OTIA operating materials and supplies as of September 30, 2011 and 2010 includes $30.2 million and $49.1 million for steel used to repair Border Patrol tactical infrastructure (BP TI) and $21.2 million and $19.2 million in spare parts used to repair systems maintained by OTIA. CBP defines operating materials and supplies categorized as "Held for Repair" as items that are useable by CBP after repair. CBP defines operating materials and supplies categorized as "Excess, Obsolete, and Unserviceable" to consist of items that are no longer useable by CBP.

Operating Materials and Supplies as of September 30, 2011 and 2010 consist of the following (in thousands):

	2011	2010
Aircraft		
Items Held for Use	$ 93,771	$ 71,661
Items Held for Repair	18,563	11,862
Excess, Obsolete, and Unserviceable Items	2,766	983
Total Aircraft	115,100	84,506
Vessels		
Items Held for Use	4,921	5,819
Items Held for Repair	10	248
Excess, Obsolete, and Unserviceable Items	318	176
Total Vessels	5,249	6,243
OTIA		
Items Held for Use	44,970	56,671
Items Held for Repair	5,665	9,447
Excess, Obsolete, and Unserviceable Items	801	2,154
Total OTIA	51,436	68,272
Total	$ 171,785	$ 159,021

8. Seized and Forfeited Property

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

Analysis of Changes in Prohibited (Non-Valued) Seized Property, September 30, 2011

Category	Unit of Measurement	Balance October 1	New Seizures	Remissions	New Forfeitures	Adjustments*	Balance September 30
Illegal Drugs							
Cannabis (marijuana)	Kilograms	1,857	1,385,602	0	(1,387,482)	2,109	2,086
Cocaine	Kilograms	169	26,999	0	(27,020)	(74)	74
Heroin	Kilograms	8	1,892	0	(1,897)	0	3
Ecstasy	Kilograms	9	451	0	(451)	(8)	1
Steroids	Kilograms	578	312	0	(722)	(3)	165
Firearms	Number of Cases	1,482	4,446	(1,340)	(1,502)	(97)	2,989

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

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

* Adjustments are the result of changes to the beginning balance due to inventory counts, changes in legal status or property type, and/or discontinuance of cases.

Analysis of Changes in Prohibited (Non-Valued) Forfeited Property, September 30, 2011

Category	Unit of Measurement	Balance October 1	New Forfeitures	Transfers	Destroyed	Adjustments*	Balance September 30
Illegal Drugs							
Cannabis (marijuana)	Kilograms	116,025	1,387,482	(711)	(537,859)	(844,470)	120,467
Cocaine	Kilograms	24,601	27,020	(881)	(22,579)	(4,230)	23,931
Heroin	Kilograms	6,085	1,897	(135)	(2,223)	(3,256)	2,368
Ecstasy	Kilograms	1,107	451	0	(481)	(19)	1,058
Steroids	Kilograms	17	722	0	(446)	0	293
Firearms	Number of Cases	647	1,502	(1,563)	(7)	432	1,011

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

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

* Adjustments are the result of changes to the beginning balance due to inventory counts, changes in legal status or property type, and/or discontinuance of cases.

9. General Property, Plant, and Equipment, Net

Property, Plant and Equipment as of September 30, 2011 and 2010 consist of the following (in thousands):

	2011			
Categories	**Useful Life (in years)**	**Acquisition Cost**	**Accumulated Depreciation/ Amortization**	**Net Book Value**
Land and Land Rights	N/A	$ 156,931	$ --	$ 156,931
Improvements to Land	5–40	1,960,132	(256,343)	1,703,789
Construction in Progress	N/A	979,308	--	979,308
Buildings, Other Structures and Facilities*	6–40	1,218,736	(222,849)	995,887
Equipment:				
ADP Equipment	5	410,867	(311,668)	99,199
Aircraft	12–20	1,253,151	(655,920)	597,231
Vessels	5–30	42,189	(18,451)	23,738
Vehicles	4–8	428,662	(310,014)	118,648
Other Equipment	5–15	1,660,832	(884,382)	776,450
Leasehold Improvements	2–30	325,688	(152,078)	173,610
Internal Use Software	5	945,367	(695,587)	249,780
Internal Use Software-in Development	N/A	148,357	--	148,357
Total		$ 9,530,220	$ (3,507,292)	$ 6,022,928

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

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

10. Stewardship PP&E

CBP's Stewardship PP&E is comprised of heritage assets located in the United States, including the Commonwealth of Puerto Rico. CBP aggregates its personal property heritage assets as collection of documents and artifacts and reflects its multi-use heritage assets as number of physical units. Information related to heritage assets at September 30, 2011 and 2010 consists of the following:

	2011				
Categories	**Beginning Balance**	**Additions**	**Withdrawals**	**Adjustments**	**Total**
Collection-type Assets					
Documents	1	--	--	--	1
Artifacts	1	--	--	--	1
Multi-use Heritage Assets	4	--	--	--	4
Total Stewardship PP&E	6	--	--	--	6

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

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

As of September 30, 2011 and 2010, CBP maintains four Customs houses, designated as multi-use heritage assets, located in Puerto Rico valued at $534 thousand which are fully depreciated. All multi-use heritage assets are reflected on the Consolidated Balance Sheet. Deferred maintenance and condition information for heritage assets are presented in the required supplementary information.

11. Advances and Prepayments

Intra-governmental advances and prepayments as of September 30, 2011 and 2010, totaling $155.1 million and $235.3 million, respectively, consist primarily of advances to UNICOR for vehicle purchases.

Advances and prepayments with the public as of September 30, 2011 and 2010, totaling $79 thousand and $108 thousand, respectively, consist of employee travel and salary advances and prepaid rent.

12. Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources as of September 30, 2011 and 2010, consist of the following (in thousands):

	2011	2010
Intra-Governmental:		
Accrued FECA Liability	$ 147,352	$ 148,988
Other Employment Liabilities	2,076	5,588
Due to the Treasury General Fund	2,816,790	2,461,903
Total Intra-Governmental	2,966,218	2,616,479
Public:		
Accrued Payroll and Benefits:		
Accrued Unfunded Leave (Note 13)	415,318	390,221
Actuarial FECA Liability (Note 13)	821,599	773,051
Environmental and Disposal Liabilities (Note 14)	16,472	15,667
Legal Contingent Liabilities	386,266	380,984
Total Public	1,639,655	1,559,923
Total Liabilities Not Covered by Budgetary Resources	4,605,873	4,176,402
Total Liabilities Covered by Budgetary Resources	1,861,435	1,985,416
Total Liabilities	$ 6,467,308	$ 6,161,818

Liabilities not covered by new budget authority or other budgetary resources represent amounts owed in excess of available appropriated or other amounts. Available budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority through downward adjustments of prior year obligations.

13. Accrued Payroll and Benefits

The payroll and benefits liability as of September 30, 2011 and 2010 consists of the following (in thousands):

	2011	2010
Accrued Funded Payroll and Benefits	$ 335,189	$ 298,963
Accrued Unfunded Leave	415,318	390,221
Actuarial FECA Liability	821,599	773,051
Total	$ 1,572,106	$ 1,462,235

Actuarial workers compensation liability claims incurred for the benefit of CBP employees under FECA are administered by DOL and are ultimately paid by CBP. Future workers' compensation estimates are generated from an application of actuarial procedures developed by the DOL.

14. Environmental & Disposal Liabilities

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

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

CBP's environmental cleanup liability as of September 30, 2011 and 2010 was $16.5 million and $15.7 million, respectively. There were no material changes in total estimated cleanup costs due to changes in law or technology. Notable changes in estimated liabilities include:

- Estimates of liability are presented in FY 2011 dollars and have been appropriately escalated to account for inflation.
- Inventory of liabilities modified due to Due Care Review process.
- The estimate for environmental remediation increased in FY 2011 due to the re-evaluation of the El Cajon remediation site.

15. Other Liabilities

CBP considers $84.8 million and $81.3 million of the accrued FECA Liability, $821.6 million and $773.1 million of the actuarial FECA Liability, and $356.8 million and $354.3 million of the Legal Contingent Liabilities as non-current as of September 30, 2011 and 2010, respectively. CBP considers all remaining Other Liabilities as current.

Other Public Liabilities includes the following:

Refunds Payable

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

CBP accrues a liability for refunds and drawback claims approved at year-end, but paid subsequent to year-end. Payments made to importers/exporters are primarily identified when the import entry is liquidated, a process in which CBP makes a final determination of duties, taxes and fees owed on the entry. Due to non-liquidation of the entries, the amount to be refunded is undetermined. Therefore, a historical calculated average was used to determine a ratio for estimating the payable to be recorded. Using this average, CBP has estimated $28.6 million and $31.4 million as of September 30, 2011 and 2010, respectively, as a payable.

The September 30, 2011 and 2010 accrued liability consists of the following (in thousands):

	2011	2010
Refunds	$ 105,680	$ 91,904
Drawback Claims	25,733	37,243
Total	$ 131,413	$ 129,147

Injured Domestic Industries

The ***Continued Dumping and Subsidy Offset Act (CDSOA) of 2000 (P.L. 106-387, Title X)***, enacted in FY 2001, calls for CBP to collect and disburse monies received in connection with antidumping and countervailing duty orders and findings to qualifying Injured Domestic Industries (IDI). Antidumping duties are collected when it is determined that a class or kind of foreign merchandise is being released into the U.S. economy at less than its fair value to the detriment of a U.S. industry. Countervailing duties are collected when it is determined that a foreign government is providing a subsidy to its local industries to manufacture, produce, or export a class or kind of merchandise for import into the U.S. commerce to the detriment of a U.S. industry. Due to the repeal of the CDSOA in the Deficit Reduction Omnibus Reconciliation Act of 2005, only duties on entries filed prior to October 1, 2007 will eventually be distributed to affected U.S. companies pursuant to rulings by the U.S. Department of Commerce. As of September 30, 2011 and 2010, CBP recorded a liability of $431.5 million and $546.9 million, respectively. CBP makes annual payments of antidumping/countervailing duties to qualifying injured domestic industries.

16. 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 unless the rental agreement is non-cancelable. Effective FY 2011, CBP identified most GSA rental agreements as non-cancelable, which resulted in a significant increase in total future lease payments. It is expected that CBP will continue to occupy and lease office space from GSA in future years.

The following schedule, by years, shows the future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year, as of September 30, 2011 (in thousands):

Fiscal Year	Facilities, Vehicles, and Equipment
2012	$ 145,936
2013	137,197
2014	136,459
2015	133,019
2016	127,307
Beyond 2016	882,873
Total Future Lease Payments	$ 1,562,791

17. Commitments and Contingencies

Legal Contingent Liabilities

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

The range of estimated contingent liabilities for all probable and estimable litigation related claims as of September 30, 2011 and 2010 were $386.3 million to $616.6 million and $381.0 million to $544.9 million, respectively. Asserted and pending legal claims for which loss is reasonably possible range from an estimated $574.0 million to $586.8 million and $351.7 million to $413.4 million as of September 30, 2011 and 2010, respectively. As of September 30, 2011, CBP had 9 cases considered reasonably possible for which no estimate could be made.

As disclosed in the Other Liabilities note, $356.8 million and $354.3 million of the Legal Contingent Liabilities is considered non-current as of September 30, 2011 and 2010, respectively.

Duty and Trade Refunds

There are various other trade issues resolved by other Federal agencies, such as the Department of Commerce, which may result in refunds of duties, taxes and fees from the Refunds and Drawback Account. Until such time as a decision is reached by the other Federal agencies, CBP does not have sufficient information to estimate a contingent liability amount. All known refunds as of September 30, 2011 and 2010 have been recorded.

Loaned Aircraft

CBP is liable to the Department of Defense for damage or loss to aircraft on loan. CBP had 16 and 17 aircraft loaned from Department of Defense with an acquisition value of $94.4 million and $100.3 million, as of September 30, 2011 and 2010, respectively.

18. Earmarked Funds

Consolidated Omnibus Budget Reconciliation (COBRA)

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

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

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

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

Immigration User Fees (IUF)

Joint Resolution (H.J. Res. 738), making continuing appropriations for FY 1987 (the "1987 Act") (Public Laws 99-500 and 99-591), established the Immigration User Fee Account (IUFA) [requiring] the [collection] of a $5 fee charged to each passenger arriving in the United States from foreign locations aboard commercial aircraft and commercial vessels except passengers whose journeys originated in the United States, Canada, Mexico, a territory or possession of the United States, or an adjacent island. The 1987 Act directed the [INS] Service, beginning in FY 1987, to collect an immigration user fee for each passenger arriving in the United States by commercial air or sea conveyance (with limited exceptions). This law was codified in 8 U.S.C. 1103, 1356, section 286, the Immigration and Nationality Act (INA).

In 1993, Congress amended section 286 of the INA by raising the immigration user fee from the original $5 to $6 with the passage of Public Law 103-121. In 2002, in Public Law 107-77, Congress increased the immigration user fee from $6 to $7.

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

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

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

The following tables present condensed data relating to CBP earmarked funds (disclosed in note 1) as of and for the years ended September 30, 2011 and 2010 (in thousands). The Statement of Changes in Net Position balances have been presented in accordance with the reclassification disclosed in Note 21.

	2011			
Balance Sheet	**COBRA**	**IUF**	**All Others**	**Total**
Assets				
Fund Balance with Treasury	$ 717,398	$ 94,986	$ 71,751	$ 884,135
Taxes, Duties & Trade Receivables, Net	85,885	--	401	86,286
Other Assets	97,892	39,270	573	137,735
Total Assets	$ 901,175	$ 134,256	$ 72,725	$ 1,108,156
Liabilities and Net Position				
Liabilities	$ 104,873	$ --	$ 3,198	$ 108,071
Cumulative Results of Operations	796,302	134,256	69,527	1,000,085
Total Liabilities and Net Position	$ 901,175	$ 134,256	$ 72,725	$ 1,108,156
Statement of Net Cost				
Gross Cost	$ 407,059	$ 468,394	$ 56,276	$ 931,729
Less: Earned Revenue	--	--	2,275	2,275
Net Cost of Operations	$ 407,059	$ 468,394	$ 54,001	$ 929,454
Statement of Changes in Net Position				
Net Position Beginning of Period	$ 789,574	$ 75,434	$ 25,196	$ 890,204
Net Costs of Operations	(407,059)	(468,394)	(54,001)	(929,454)
Non-Exchange Revenue	405,519	--	92,432	497,951
Net Transfers In/Out	(1,552,209)	(114,483)	--	(1,666,692)
Other	1,560,477	641,699	5,900	2,208,076
Change in Net Position	6,728	58,822	44,331	109,881
Net Position End of Period	$ 796,302	$ 134,256	$ 69,527	$ 1,000,085

Balance Sheet	2010 COBRA	2010 IUF	2010 All Others	2010 Total
Assets				
Fund Balance with Treasury	$ 714,680	$ 18,373	$ 25,997	$ 759,050
Taxes, Duties & Trade Receivables, Net	81,083	--	658	81,741
Other Assets	93,469	57,061	126	150,656
Total Assets	$ 889,232	$ 75,434	$ 26,781	$ 991,447
Liabilities and Net Position				
Liabilities	$ 99,658	$ --	$ 1,585	$ 101,243
Cumulative Results of Operations	789,574	75,434	25,196	890,204
Total Liabilities and Net Position	$ 889,232	$ 75,434	$ 26,781	$ 991,447
Statement of Net Cost				
Gross Cost	$ 398,763	$ 592,087	$ 39,910	$ 1,030,760
Less: Earned Revenues	--	--	(2,017)	(2,017)
Net Cost of Operations	$ 398,763	$ 592,087	$ 41,927	$ 1,032,777
Statement of Changes in Net Position				
Net Position Beginning of Period	$ 811,500	$ 159,267	$ 21,490	$ 992,257
Net Costs of Operations	(398,763)	(592,087)	(41,927)	(1,032,777)
Non-Exchange Revenue	382,665	--	37,827	420,492
Net Transfers In/Out	(1,383,045)	(110,316)	--	(1,493,361)
Other	1,377,217	618,570	7,806	2,003,593
Change in Net Position	(21,926)	(83,833)	3,706	(102,053)
Net Position End of Period	$ 789,574	$ 75,434	$ 25,196	$ 890,204

19. 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 years ended September 30, 2011 and 2010 (in thousands):

	2011	2010
Border Security Inspections and Trade Facilitation at Ports of Entry		
Intra-Governmental Costs	$ 2,026,646	$ 1,922,623
Public Costs	4,493,235	4,648,417
Total Border Security Inspections and Trade Facilitation at Ports of Entry Costs	**6,519,881**	**6,571,040**
Less: Intra-Governmental Earned Revenue	86,882	104,890
Less: Public Earned Revenue	68,907	61,172
Total Border Security Inspections and Trade Facilitation at Ports of Entry Revenue	**155,789**	**166,062**
Border Security and Control Between Ports of Entry		
Intra-Governmental Costs	1,519,180	1,310,262
Public Costs	3,368,143	3,167,883
Total Border Security and Control Between Ports of Entry Costs	**4,887,323**	**4,478,145**
Less: Intra-Governmental Earned Revenue	65,127	71,483
Less: Public Earned Revenue	51,653	41,688
Total Border Security and Control Between Ports of Entry Revenue	**116,780**	**113,171**
Border Security Fencing, Infrastructure and Technology		
Intra-Governmental Costs	28,350	37,744
Public Costs	62,854	91,254
Total Border Security Fencing, Infrastructure and Technology Costs	**91,204**	**128,998**
Less: Intra-Governmental Earned Revenue	1,215	2,059
Less: Public Earned Revenue	964	1,201
Total Border Security Fencing, Infrastructure and Technology Revenue	**2,179**	**3,260**
Automation Modernization		
Intra-Governmental Costs	67,963	78,309
Public Costs	150,681	189,331
Total Automation Modernization Costs	**218,644**	**267,640**
Less: Intra-Governmental Earned Revenue	2,913	4,272
Less: Public Earned Revenue	2,311	2,492
Total Automation Modernization Revenue	**5,224**	**6,764**
Air and Marine Operations		
Intra-Governmental Costs	188,949	178,488
Public Costs	418,916	431,538
Total Air and Marine Operations Costs	**607,865**	**610,026**
Less: Intra-Governmental Earned Revenue	8,100	9,738
Less: Public Earned Revenue	6,424	5,679
Total Air and Marine Operations Revenue	**14,524**	**15,417**
Net Cost of Operations	**$ 12,030,421**	**$ 11,751,175**

20. Sub-Organization Program Costs/ Program Costs by Segment

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

Operating costs are summarized in the Consolidated Statement of Net Cost by mission or major line of activity, as applicable to the reporting period. The net cost of operations is the gross (i.e. total) cost incurred by CBP less any exchange (i.e. earned) revenue.

For the year ended September 30, 2011 (in thousands):

Schedule of Net Cost by Program and Responsibility Segment	2011				
	Protect our Nation from Dangerous People	Protect our Nation from Dangerous Goods	Protect Critical Infrastructure	Intra-Entity Eliminations	Consolidated Total
Border Security Inspections and Trade Facilitation at Ports of Entry					
Gross Costs:					
Passenger Processing	$ 1,743,138	$ 1,945,652	$ --	$ 333,948	$ 3,354,842
Trade Compliance	209	2,482,474	--	224,758	2,257,925
Anti-Terrorism	132,750	684,421	--	73,979	743,192
Outbound	--	180,239	--	16,317	163,922
Total Gross Costs	1,876,097	5,292,786	--	649,002	6,519,881
Less: Earned Revenue	210,614	594,177	--	649,002	155,789
Net Program Costs	$ 1,665,483	$ 4,698,609	$ --	$ --	$ 6,364,092
Border Security and Control Between Ports of Entry					
Gross Costs	$ 5,373,817	$ --	$ --	$ 486,494	$ 4,887,323
Less: Earned Revenue	603,274	--	--	486,494	116,780
Net Program Costs	$ 4,770,543	$ --	$ --	$ --	$ 4,770,543
Border Security Fencing, Infrastructure and Technology					
Gross Costs	$ 100,283	$ --	$ --	$ 9,079	$ 91,204
Less: Earned Revenue	11,258	--	--	9,079	2,179
Net Program Costs	$ 89,025	$ --	$ --	$ --	$ 89,025
Automation Modernization					
Gross Costs	$ 20,242	$ 212,689	$ 7,477	$ 21,764	$ 218,644
Less: Earned Revenue	2,272	23,877	839	21,764	5,224
Net Program Costs	$ 17,970	$ 188,812	$ 6,638	$ --	$ 213,420
Air and Marine Operations					
Gross Costs	$ 668,373	$ --	$ --	$ 60,508	$ 607,865
Less: Earned Revenue	75,032	--	--	60,508	14,524
Net Program Costs	$ 593,341	$ --	$ --	$ --	$ 593,341
Net Cost of Operations	$ 7,136,362	$ 4,887,421	$ 6,638	$ --	$ 12,030,421

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

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

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

Non-exchange Revenue represents amounts collected from user fees that CBP may retain and expend as authorized by law, and is identified in Non-exchange Revenue and Other. 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.

Reclassification

In FY 2011, the presentation of the Statement of Changes in Net Position was changed to conform with Treasury Financial Management requirements. The FY 2011 Non-exchange Revenue was divided between Budgetary and Other Financing Sources. Non-exchange Revenue reported under Budgetary Financing Sources includes Land Border Inspection Fees, Immigration Enforcement Fees, International Registered Traveler Program Fees, Electronic Systems for Travel Authorization Fees, Customs User Fees, and amounts from Abandoned and Seized Goods. These amounts are identified as Budgetary Financing Sources because CBP recognizes budget authority related to the collections. Non-exchange Revenue reported under Other Financing Sources includes Immigration User Fees, User Fees for Small Airports, and Customs Merchandise Processing Fees, which represent revenue reported in receipt accounts for which CBP does not have available budgetary authority. Also reported under Other Financing Sources is the accounts receivable related portion of Customs User Fees.

For comparability with FY 2011, the FY 2010 Statement of Changes in Net Position and associated notes have been updated.

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

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

2011	Apportionment Category A	Apportionment Category B	Exempt from Apportionment	Total
Obligations Incurred - Direct	$ 8,283,686	$ 3,767,571	$ 1,188,774	$ 13,240,031
Obligations Incurred - Reimbursable	1,347,191	141,094	--	1,488,285
Total Obligations Incurred	$ 9,630,877	$ 3,908,665	$ 1,188,774	$ 14,728,316

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

23. Appropriations

As of September 30, 2011 and 2010, the Combined Statements of Budgetary Resources consist of appropriations totaling $12.4 billion and $12.9 billion, respectively. This differs from the Consolidated Statements of Changes in Net Position as of September 30, 2011 and 2010, which consist of appropriations received totaling $8.3 billion and $9.0 billion, respectively. This difference is due to CBP's non-entity activity, which as of September 30, 2011 and 2010 consists of $1.3 billion and $1.5 billion, respectively, for Refund and Drawback activity, as well as $2.8 billion and $2.4 billion, respectively, for user/inspection fees and subsidy activity, which are not reported on the Consolidated Statements of Changes in Net Position.

Permanent indefinite appropriations refer to the appropriations that result from permanent public laws, which authorize CBP to retain certain receipts. The amount appropriated depends upon the amount of the receipts rather than on a specific amount. CBP has a permanent and indefinite appropriation, which is used to disburse tax and duty refunds and duty drawbacks. Although funded through an appropriation, refund and drawback activity is, in most instances, reported as a custodial activity. Refunds are custodial revenue-related activity in that refunds are a direct result of importer overpayments of duties, taxes and fees. Federal tax revenue received from taxpayers is not available for use in the operation of CBP and is not reported on the Consolidated Statements of Net Cost. Likewise, the refunds of overpayments are not available for use by CBP in its operations. Refunds and drawback disbursements totaled $1.3 billion for fiscal years ended September 30, 2011 and 2010, and are presented as a use of custodial revenue on the Consolidated Statements of Custodial Activity. This appropriation is not subject to budgetary ceilings established by Congress. CBP's refund payable at year-end is not subject to funding restrictions. Refund payment funding is recognized as appropriations are used.

24. Legal Arrangements Affecting the Use of Unobligated Balances

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

Included in the cumulative results of operations for special funds is $1.0 billion at September 30, 2011, that represents CBP's authority to assess and collect user fees relating to merchandise and passenger processing, to assess and collect fees associated with the services performed at certain small airports or other facilities, retain amounts needed to offset costs associated with collecting duties, and taxes and fees for the government of Puerto Rico. These special fund balances are restricted by law and in their use to offset specific costs incurred by CBP. The passenger fees in the COBRA User Fee Account, totaling approximately $729.2 million, as of September 30, 2011 is restricted by law in its use to offset specific costs incurred by CBP and are available to the extent provided in Department Appropriations Acts.

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

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

The table below documents the material differences between the FY 2010 Combined Statement of Budgetary Resources and the actual amounts reported for FY 2010 in the Budget of the United States Government. Since the FY 2011 financial statements are reported prior to the Budget of the United States Government, CBP is reporting for FY 2010 only. Typically, the Budget of the United States Government with the FY 2011 actual data is published in February of the subsequent year. Once published, the FY 2011 actual data will be available on the OMB web site, *www.whitehouse.gov/omb*.

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

2010	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 17,791,015	$ 15,144,539	$ 2,468,799	$ 10,134,906
Differences:				
Expired Appropriation not Included in President's Budget	(321,558)	(68,904)	--	--
Refunds and Drawbacks not Included in President's Budget	(972,231)	(972,231)	--	(968,565)
Injured Domestic Industries not Included in President's Budget (20X5688)	(805,981)	(259,065)	--	(259,065)
Offsetting Receipts not Included in the Treasury Annual Report	--	--	53,972	2,468,799
Miscellaneous	--	(1,000)	1,000	--
Total Differences	(2,099,770)	(1,301,200)	54,972	1,241,169
Budget of the U.S. Government	$ 15,691,245	$ 13,843,339	$ 2,523,771	$ 11,376,075

Expired authority represents funding for which CBP no longer has budget authority. Refund and Drawback and the Injured Domestic Industries activity is exempt from apportionment per OMB Circular A-11 and therefore is not included in the President's Budget. CBP Offsetting Distributed Receipts include receivable accruals and undeposited collections which are not included in the President's Budget.

26. Undelivered Orders at the End of Period

An undelivered order exists when a valid obligation has occurred and funds have been reserved, but the goods or services have not been delivered and have not been prepaid. Undelivered orders for the period ended September 30, 2011 and 2010 (in thousands):

	2011	2010
Unpaid	$ 3,997,996	$ 4,180,681
Upward/Downward Adjustment of Prior Period	(569,687)	(424,410)
Total Undelivered Orders at the End of Period	$ 3,428,309	$ 3,756,271

27. Custodial Revenues

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

Disbursements from the Refunds and Drawback account for the fiscal year ended September 30, 2011 and 2010 (in thousands):

	2011	2010
Refunds	$ 661,562	$ 562,749
Drawback	686,066	716,856
Total	$ 1,347,628	$ 1,279,605

Amounts refunded during FY 2011 and 2010 identified by entry year consist of the following (in thousands):

Entry Year	2011
2011	$ 719,917
2010	270,903
2009	89,591
2008	67,732
Prior Years	199,485
Total	$ 1,347,628

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

The total amounts of antidumping and countervailing duties vary from year to year, depending on decisions from Department of Commerce. Antidumping and countervailing duty refunds (included in total refunds presented above) and associated interest refunded for the fiscal years ended September 30, 2011 and 2010, consisted of the following (in thousands):

	2011	2010
Antidumping and Countervailing Duty Refunds	$ 113,932	$ 39,923
Interest	7,945	2,906
Total	$ 121,877	$ 42,829

28. Reconciliation of Net Cost of Operations to Budget

The following table presents CBP's reconciliation of net cost of operations to budgetary accounts for the years ended September 30, 2011 and 2010 (in thousands). The balance of "Other Resources – Other" has been presented in accordance with the reclassification disclosed in Note 21.

	2011	2010
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 14,728,316	$ 15,144,539
Less: Spending Authority from Offsetting Collections and Recoveries	2,066,191	2,020,914
Obligations Net of Offsetting Collections and Recoveries	12,662,125	13,123,625
Less: Offsetting Receipts	2,764,695	2,468,799
Net Obligations	9,897,430	10,654,826
Other Resources		
Donations and Forfeiture of Property	--	3,366
Transfers In/Out Without Reimbursement	40,556	75,242
Imputed Financing from Costs Absorbed by Others	710,128	570,393
Other	2,137,986	1,945,935
Net Other Resources Used to Finance Activities	2,888,670	2,594,936
Total Resources Used to Finance Activities	$ 12,786,100	$ 13,249,762
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	$ (397,968)	$ 538,419
Resources That Fund Expenses Recognized in Prior Periods	5,148	17,050
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations	(561,946)	(465,205)
Resources That Finance the Acquisition of Assets or Liquidation of Liabilities	1,025,765	1,126,092
Tax Revenue Refunds and Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	1,293,721	1,252,923
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ 1,364,720	$ 2,469,279
Total Resources Used to Finance the Net Cost of Operations	$ 11,421,380	$ 10,780,483
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability and Environmental Liability	$ 25,902	$ 63,178
Change in Actuarial FECA Liability, Legal Contingent Liabilities and Other	53,831	370,715
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	$ 79,733	$ 433,893
Components Not Requiring or Generating Resources		
Depreciation and Amortization	$ 610,797	$ 547,299
Revaluation of Assets or Liabilities	(10,360)	(10,924)
Other Non-Budgetary Resources	(71,129)	424
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	$ 529,308	$ 536,799
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	$ 609,041	$ 970,692
Net Cost of Operations	$ 12,030,421	$ 11,751,175

Deferred Maintenance

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

An assessment of “fair” means the facility/equipment condition meets minimum standards but requires additional maintenance or repair to prevent further deterioration, increase operating efficiency and to achieve normal life expectancy. An assessment of “good” means the facility/equipment condition is above minimum standards, but requires preventative maintenance or normal repairs to maintain the design intent of the building or equipment so that it continues to provide acceptable service and achieves the expected useful life. An assessment of “poor” means the facility/equipment does not meet most maintenance standards and requires frequent repairs to prevent accelerated deterioration and to provide a minimal level of operating function. In some cases, this includes condemned or failed facilities. Deferred maintenance on property, plant and equipment as measured by condition assessment survey, is comprised of (in thousands):

	2011	
	Condition Assessment	**Deferred Maintenance**
Building and Structures	Poor to Good	$ 94,000
Vehicles	Good	31
Equipment	Good	42
Multi-Use Heritage Assets	Good	--
Collections (documents and artifacts)	Poor to Good	--
Total		$ 94,073

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

Statement of Budgetary Resources (SBR)

The total Budgetary Resources of $17.0 billion for FY 2011 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.

Schedule of Budgetary Resources by Major Budget Accounts:

As of September 30, 2011 (in thousands):	Salaries & Expense	Air & Marine	BSFIT	Construction	Automation	Other	Total
Budgetary Resources							
Unobligated Balances Brought Forward, Oct 1	$ 549,343	$ 135,464	$ 324,659	$ 225,908	$ 108,113	$1,302,989	$ 2,646,476
Recoveries of Prior Year Obligations	237,751	55,455	103,071	176,085	26,884	8,170	607,416
Budget Authority:							
Appropriations	6,654,080	516,326	574,173	260,000	336,575	4,083,267	12,424,421
Spending Authority from Offsetting Collections:							
Earned							
Collected	1,432,079	2,172	--	--	--	30,387	1,464,638
Change in Receivable from Federal Sources	890	(259)	--	--	--	525	1,156
Change in Unfilled Customer Orders:							
Advance Received	(697)	--	--	--	--	--	(697)
Without Advance from Federal Sources	(6,166)	41	--	--	--	(3,423)	(9,548)
Expenditure Transfers from Trust Funds	3,226	--	--	--	--	--	3,226
Subtotal	8,083,412	518,280	574,173	260,000	336,575	4,110,756	13,883,196
Non-Expenditure Transfers, Net	1,877,521	--	(20,491)	--	20,491	(1,557,541)	319,980
Temporarily Not Available	--	--	--	--	--	(3,110)	(3,110)
Permanently Not Available	(120,445)	(1,033)	(130,148)	(110,366)	(10,673)	(84,605)	(457,270)
Total Budgetary Resources	$ 10,627,582	$ 708,166	$ 851,264	$ 551,627	$ 481,390	$ 3,776,659	$16,996,688
Status of Budgetary Resources							
Obligations Incurred:							
Direct	$ 8,875,601	$ 627,383	$ 447,383	$ 499,410	$ 391,353	$2,398,901	$13,240,031
Reimbursable	1,456,655	928	--	--	--	30,702	1,488,285
Total Obligations Incurred	10,332,256	628,311	447,383	499,410	391,353	2,429,603	14,728,316
Unobligated Balance:							
Apportioned	3,170	--	20	--	--	--	3,190
Unobligated Balance Not Available	292,158	79,856	403,859	52,217	90,037	1,347,055	2,265,182
Total Status of Budgetary Resources	$ 10,627,584	$ 708,167	$ 851,262	$ 551,627	$ 481,390	$ 3,776,658	$16,996,688
Change in Obligated Balances							
Obligated Balance, Net							
Unpaid Obligations Brought Forward, Oct 1	$ 2,040,587	$ 654,213	$ 739,478	$1,231,305	$ 214,525	$ 181,332	$ 5,061,440
Uncollected Customer Payments from Federal Sources Brought Forward, Oct 1	(167,925)	(519)	--	--	--	(3,844)	(172,288)
Total Unpaid Obligated Balance, Net	1,872,662	653,694	739,478	1,231,305	214,525	177,488	4,889,152
Obligations Incurred, Net	10,332,256	628,311	447,383	499,410	391,353	2,429,603	14,728,316
Gross Outlays	(10,283,652)	(611,290)	(395,743)	(479,194)	(334,254)	(2,365,040)	(14,469,173)
Recoveries of Prior Year Unpaid Obligations	(237,751)	(55,455)	(103,071)	(176,085)	(26,884)	(8,170)	(607,416)
Change in Uncollected Customer Payments from Federal Sources	5,276	218	--	--	--	2,898	8,392
Obligated Balance, Net, End of Period							
Unpaid Obligations	1,851,441	615,779	688,047	1,075,436	244,740	237,724	4,713,167
Uncollected Customer Payments from Federal Sources	(162,650)	(301)	--	--	--	(945)	(163,896)
Total, Unpaid Obligated Balance, Net, End of Period	1,688,791	615,478	688,047	1,075,436	244,740	236,779	4,549,271
Net Outlays							
Gross Outlays	10,283,652	611,290	395,743	479,194	334,254	2,365,040	14,469,173
Offsetting Collections	(1,434,608)	(2,172)	--	--	--	(30,387)	(1,467,167)
Distributed Offsetting Receipts	--	--	--	--	--	(2,764,695)	(2,764,695)
Total Net Outlays	$ 8,849,044	$ 609,118	$ 395,743	$479,194	$ 334,254	$ (430,042)	$ 10,237,311

Schedule of Budgetary Resources by Major Budget Accounts:

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

Custodial Activity

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

CBP reviews selected documents to ensure all duties, taxes and fees owed to the Federal government are paid and to ensure regulations are followed. If CBP determines that duties, taxes, fees, fines or penalties are due in addition to estimated amounts previously paid by the importer/violator, the importer/violator is notified of the additional amount due. CBP regulations allow the importer/violator to file a protest on the additional amount due for review by the Port Director. A protest allows the importer/violator the opportunity to submit additional documentation supporting their claim of a lower amount due or to cancel the additional amount due in its entirety. During the protest period, CBP does not have a legal right to importer/violator's assets, and consequently CBP recognizes accounts receivable only when the protest period has expired or an agreement is reached. For FY 2011 and 2010 CBP had the legal right to collect $2.7 billion and $2.5 billion of receivables. In addition, there were $2.3 billion and $2.4 billion representing records still in the protest phase for FY 2011 and 2010, respectively. CBP recognized as write-offs $109 million and $42.8 million of assessments that the Department has statutory authority to collect at September 30, 2011 and 2010, but has no future collection potential. Most of this amount represents fines, penalties and interest.

Auditor's Report

Independent Auditor's Report

The independent audit of CBP's consolidated financial statement 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

MAR 27 2012

MEMORANDUM FOR: Deborah J. Schilling
Chief Financial Officer
U.S. Customs and Border Protection

FROM: Anne L. Richards for
Assistant Inspector General for Audits

SUBJECT: *Independent Auditors' Report on U.S. Customs and Border Protection's FY 2011 Financial Statements*

The attached report presents the results of the U.S. Customs and Border Protection's consolidated financial statement audits for fiscal years 2011 and 2010. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audits. KPMG concluded that U.S. Customs and Border Protection's consolidated financial statements as of and for the years ended September 30, 2011, and September 30, 2010, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

The report discusses four significant deficiencies in internal control, the first of which is considered a material weakness, as follows:

Significant Deficiencies

A. Drawback of Duties, Taxes, and Fees
B. Property, Plant, and Equipment
C. Entry Process
    a. In-Bond Program
    b. Trade Compliance Measurement
    c. Bonded Warehouse and Foreign Trade Zones
D. Information Technology

KPMG is responsible for the attached independent auditors' report dated January 27, 2012, and the conclusions expressed in the report. We do not express opinions on 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 our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. In addition, we will post a copy of the report on our website.

We extend our appreciation to U.S. Customs and Border Protection's Office of the Chief Financial Officer, Office of Administration, and field offices for the cooperation and courtesies extended to our and KPMG's staff during the audit. Should you have any questions, please call me, or your staff may contact John E. McCoy II, Deputy Assistant Inspector General for Audits, at 202-254-4100.

Attachment

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Department of Homeland Security
Office of Inspector General

Independent Auditors' Report on U.S. Customs and Border Protection's FY 2011 Financial Statements

OIG-12-65

March 2012

Office of Inspector General

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

Homeland Security

MAR 27 2012

Preface

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

The attached report presents the results of the U.S. Customs and Border Protection's (CBP) financial statement audits for fiscal year (FY) 2011 and FY 2010. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audits. The contract required that KPMG perform its audits according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG concluded that CBP's consolidated financial statements as of and for the years ended September 30, 2011 and 2010, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. The FY 2011 independent auditors' report discusses four significant deficiencies in internal control, one of which is considered a material weakness. KPMG is responsible for the attached auditors' report, and the conclusions expressed in the report. We do not express opinions on CBP's financial statements or provide conclusions on compliance with laws and regulations.

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

for
Anne L. Richards
Assistant Inspector General for Audits

KPMG LLP
1676 International Drive
McLean, VA 22102

Independent Auditors' Report

Acting Inspector General
U.S. Department of Homeland Security:

Acting Commissioner
U.S. Customs and Border Protection:

We have audited the accompanying consolidated balance sheets of the U.S. Customs and Border Protection (CBP), a Component of the U.S. Department of Homeland Security (DHS), as of September 30, 2011 and 2010, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2011 audit, we also considered CBP's internal control over financial reporting and tested CBP's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated financial statements.

Summary

As stated in our opinion on the consolidated financial statements, we concluded that CBP's consolidated financial statements as of and for the years ended September 30, 2011 and 2010, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies, as defined in the Internal Control Over Financial Reporting section of this report, as follows:

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

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

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

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

KPMG

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the U.S. Customs and Border Protection, a Component of the U.S. Department of Homeland Security, as of September 30, 2011 and 2010, and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CBP as of September 30, 2011 and 2010, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

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

The information in the Commissioner's Message, Performance Section, Message from the Chief Financial Officer, Other Accompanying Information, and Acronyms as reflected in CBP's *Fiscal Year 2011 Performance and Accountability Report* is presented for purposes of additional analysis, and is not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, in our fiscal year 2011 audit, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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

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

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

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

Compliance and Other Matters

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

* * * * * * *

Responsibilities

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

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2011 and 2010 consolidated financial statements of CBP based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CBP's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our fiscal year 2011 audit, we considered CBP's internal control over financial reporting by obtaining an understanding of CBP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of CBP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CBP's internal control over financial reporting. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether CBP's fiscal year 2011 consolidated financial statements are free of material misstatement, we performed tests of CBP's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, KPMG

and contracts applicable to CBP. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

CBP's response to the findings identified in our audit is presented in Management's Response to the Independent Auditors' Report. We did not audit CBP's response and, accordingly, we express no opinion on it.

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

KPMG LLP

January 27, 2012

Material Weakness

A. Drawback of Duties, Taxes, and Fees

Background:

U.S. Customs and Border Protection (CBP) performs an important revenue collection function for the U.S. Department of the Treasury. CBP collected approximately $33.9 billion in import duties, taxes, and fees in fiscal year (FY) 2011 on merchandise arriving in the U.S. 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.

The conditions cited below have existed for several years; however, since FY 2009 CBP's planned remediation for many of these conditions were tied to systems modernization through the Automated Commercial Environment (ACE). In FY 2010, funding for the implementation of ACE was reduced, and a systems solution is currently unfunded. During FY 2010 and continuing into FY 2011, CBP began an effort to improve the drawback process as a whole and is currently reassessing the planned solutions to conditions below.

Condition:

The following weaknesses related to internal control over drawback of duties, taxes, and fees paid by the importer were identified:

- CBP is unable to prevent, or detect and correct excessive drawback claims against an entry summary due to the inherent limitations of the Automated Commercial System (ACS) and the lack of controls therein. An entry summary can comprise numerous line items; however, ACS does not have the capability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries (UCEs), their individual line items, or export documentation upon which the drawback claim was based.
- Currently, the drawback module within ACS provides information to ensure that the total amount of all drawback claims against a given import entry does not exceed 100% of the total amount of duties, taxes, and fees collected, at the entry summary level. By law, the amount paid for drawback claims against a given import entry should not exceed 99% of the duties, taxes, and fees collected at the individual line item level and the entry summary level. In addition, export information is not linked to the drawback module and, therefore, electronic comparisons of export data cannot be performed within ACS to ensure that overpayments of drawback claims are not made.
- Drawback review policies did not require Drawback Specialists to review all, or a statistically valid sample, of prior drawback claims against a selected import entry to determine whether, in the aggregate, an excessive amount had been claimed against import entries. CBP utilizes a "validity tree" approach when selecting prior drawback claims for review. The validity tree approach requires CBP to review the largest prior related drawback claims; however, this approach is not statistical. In addition, drawback review policy and procedures allow Drawback Specialists, with supervisory approval, to judgmentally decrease the number of UCEs randomly selected for review, which decreases the review's effectiveness. Further, CBP's sampling methodology for selecting UCEs is not considered to be statistically valid and CBP's Drawback Handbook does not include procedures for statistically projecting errors noted in the sample.

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

Cause/Effect:

Due to system functionality limitations, much of the drawback process is manual, placing an added burden on limited resources. CBP uses a sampling approach to compare, verify, and match consumption entry and export documentation to drawback claims submitted by importers. However, system and procedural limitations decrease the effectiveness of this approach.

The inherent risk of fraudulent claims or claims made in error is high, which increases the risk of erroneous payments. Since all, or a statistically valid sample, of the related drawback claims are not reviewed for a selected import entry, the possibility exists that the related drawback claims, in aggregate, will exceed the amount of duty and tax collected on the related import entry. In addition, the length of the drawback claim lifecycle often extends beyond the document retention period, which is set by statute at three years after payment of the claim.

Criteria:

Presented in *Index of Financial Reporting and Internal Control Criteria* behind Exhibit III.

Recommendations:

We recommend that CBP:

1. Continue to pursue alternative compensating controls and measures that may ultimately identify the potential revenue loss exposure to CBP, as the incorporation of drawback processing is not in the near-term schedule for ACE production. These alternative internal controls over drawback claims may result in the ability to compare, verify, and track essential information on drawback claims to the related UCEs and export documentation for which the drawback claim is based, and identify duplicate or excessive drawback claims;
2. Develop and implement automated controls to prevent overpayment of a drawback claim; and
3. Analyze current policies and procedures performed at the Drawback Centers, determine the cost/benefit of current procedures, and revise as necessary.

CBP Response:

See management's response included in the attached letter.

Other Significant Deficiencies

B. Property, Plant, and Equipment

Background:

U.S. Customs and Border Protection (CBP) has acquired substantial new technology, facilities, and other assets in recent years through purchase and construction. CBP's increased assets primarily include construction of border fencing (both physical and virtual), purchase of inspection equipment at Ports of Entry, and new construction at Port of Entry facilities.

Condition:

Several weaknesses were identified related to CBP's accounting for property, plant, and equipment (PP&E). Specifically, CBP:

- Did not have a fully implemented, documented, formal review process in place to determine if the Percentage of Completion (POC) amounts, reported by Project/Construction Managers, were correct and led to accurate financial reporting under U.S. generally accepted accounting principles as it related to construction prior to the second quarter of FY 2011. Therefore, CBP did not detect inaccurate POCs reported throughout the first quarter or obtain supporting documentation for the POCs submitted by the Project/Construction Managers. Once CBP issued formalized guidance in the second quarter, the POC amounts reported varied, including both increases and decreases, from the POC amounts reported in the first quarter of the FY. In addition, the POC amounts continued to vary from the second quarter to the third quarter as a result of additional changes made to the process. Furthermore, the formalized guidance did not provide instructions on how to calculate POCs for general funding projects and thus CBP did not record a POC for the six projects identified as general funding projects.
- Did not properly classify six *American Recovery and Reinvestment Act* projects. CBP recognized these projects as repairs and maintenance, which did not require a POC, when in fact the projects were ongoing leasehold improvements, which required a POC.
- Did not properly and timely record certain construction-in-progress (CIP) settlement transactions. Specifically, there were 73 instances in which assets were untimely moved from CIP to fixed assets, resulting in the misclassification of assets in the general ledger. These delays spanned from one to twenty-six months. As a result of these late settlements, depreciation for the assets was understated from the time the assets were placed in service to when the assets were settled. To correct total depreciation in the general ledger, CBP recorded an additional $30.9 million in accumulated depreciation and depreciation expense. In addition, 16 assets were identified in which CBP understated the value of its assets that were placed in service. CBP did not recognize the full value of the asset until further invoices were received. Furthermore, CBP settled a project to the incorrect general ledger account and settled four projects to the incorrect sub-asset number. A project was also capitalized when it should have been expensed and another settlement was recorded in duplicate. Lastly, CBP did not properly complete and review certain Technically Complete (TECO) forms, which indicate when a project has been completed and determines when the transaction to record the settlement should occur.
- Did not properly perform and/or document certain annual physical inventories related to real and personal property and did not detect assets incorrectly recorded, misclassified, or not recorded in the general ledger. In addition, the personal property inventory instructions did not provide sufficient detail for documenting the inventory results on the count sheets.

- Recorded certain asset additions for an amount other than the amount paid, without proper supporting documentation, in an untimely manner, or used the incorrect general ledger account. Furthermore, the transactions performed to record the asset additions did not consistently comply with the United States Standard General Ledger at the transaction level.
- Did not properly input the correct capitalization date for 23 asset reclassifications, which in turn affected the corresponding accumulated depreciation balance.
- Improperly recorded certain asset retirements. Specifically, some assets that were retired were still in use, did not have proper approval and/or supporting documentation, or the transaction used to record the retirement included an incorrect general ledger account.
- Untimely recorded certain asset retirements and did not properly write-down the value of some assets that were no longer providing their expected services. Of the retirement transactions tested, one to thirty-four months lapsed between when an asset was physically removed from service and when it was retired from the system.

Criteria:

Presented in *Index of Financial Reporting and Internal Control Criteria* behind Exhibit III.

Cause/Effect:

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

Recommendations:

We recommend that CBP:

1. Ensure standard operating procedures are in place and used by all Facilities, Management and Engineering Program Management Offices to create construction projects and to determine accurate POCs for all capitalized projects;
2. Review current policies and procedures for the proper recordation of asset additions, transfers and retirements with regard to asset valuations and depreciation;
3. Determine whether existing policies and procedures regarding purchase orders and goods receipt are sufficient, revise policies where necessary, and communicate policies and procedures to receivers of goods throughout CBP;
4. Establish and implement internal controls to ensure that timely and accurate transfer of completed assets from CIP to final asset settlement occurs;
5. Revise the current TECO process to include detailed accountability of time gaps, identify and correct problem areas, and establish procedures and training materials to ensure that the timely and correct accounting of assets occurs;
6. Clearly define and communicate instructions regarding the requirements for the performance and documentation of physical inventories; and
7. Request system changes, where possible, to require the submission of detailed supporting documentation, and to ensure the proper authorization for retirement has been obtained, prior to the completion of the asset retirement transaction.

C. Entry Process

1. In-Bond Program

Background:

General In-Bond Process

An in-bond entry allows the movement of cargo through the United States without payment of duty or appraisement prior to entry into domestic or foreign commerce. The cargo may enter commerce after it arrives at the destination port and an entry is filed. An in-bond also allows foreign merchandise arriving at one U.S. port to be transported through the U.S. for export from another U.S. port without the payment of duty. The shipment might not enter commerce if the shipment is entered into a Bonded Warehouse or admitted into a Foreign Trade Zone.

Compliance Audit and In-Bond

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

In-Bond Shipments Overdue for Export (M02) Report

In-bond shipments overdue for export are included on the M02 report. Items on this report are in-bond movements transmitted by importers or brokers via the Automated Manifest System (AMS), Automated Broker Interface, or paper that have not been exported within the required time limit. Review of the M02 report is designed to identify, but is not limited to, cargo that has not been exported and therefore may have physically, but not formally entered into U.S. commerce, administrative or clerical errors with paperwork, or system processing errors.

Monthly List of In-Bond Shipments Overdue (M07) Report

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

Condition:

The following weaknesses were identified over the in-bond program:

- Ports are required to submit a summary of post audits conducted and the associated results to Headquarters. However, due to a system limitation in ACS, Headquarters cannot run an oversight report to determine if ports have completed all required audits. The "In-Bond Exam/Audit Selection" report in ACS is designed to provide this function, but it currently does not accurately list the history of all in-bonds selected for audit and is not consistent with the listing of incomplete Tin-Man audits on the "In-Bond Exam Audit Table" report.

- Headquarters completes a monthly analysis of the post audits and results submitted from the ports to determine the overall compliance rate of the in-bond program; however, documentation of this analysis is not maintained.

- The M02 report does not track air in-bonds.
- The design of the M02 and M07 reports causes these monitoring reports to contain old and outdated information. Therefore, the ports have been instructed to focus on the most current issues and are not required to completely resolve all items on the M02 and M07 reports. Thus, items on the reports may go unresolved.
- Tin-Man is designed to assign both examinations of cargo and post audits on a weekly basis. The frequency of the current year examinations and audits is determined by an algorithm based on prior year results in Tin-Man. In FY 2010, Tin-Man was not reset by the Office of Information Technology at the beginning of the fiscal year for cargo examinations; therefore, no cargo examinations for the ports were generated by Tin-Man. As the current year frequency is based on prior year results, some ports did not receive any cargo examinations designated by Tin-Man in FY 2011.

Criteria:

Presented in *Index of Financial Reporting and Internal Control Criteria* behind Exhibit III.

Cause/Effect:

A Headquarters memorandum to all field offices was issued in August 2011, indicating the retention guidelines for in-bond audits, in-bond examinations, the M02 report, and the M07 report; however, not all ports were in compliance with the memorandum during FY 2011. Additionally, due to a flaw in the design of the M02 and M07 reports, there is no requirement for ports to completely resolve all items on the reports each time they are reviewed. The inability to effectively monitor the in-bond process and verify the arrival of in-bond merchandise at the port level could result in the loss of fines and penalty custodial revenue.

Current ACS system limitations restrict the ability of CBP to accurately monitor the in-bond process, both at the Headquarters and port levels. The lack of an automatic compilation and analysis of audit results at the national level hampers CBP's ability to ensure complete information is received from the ports to determine the effectiveness of in-bond audits and common in-bond errors.

Recommendations:

We recommend that CBP:

1. Continue to monitor and review the Tin-Man audit results to ensure that the national in-bond compliance rate continues;
2. Implement the "M1" release in the Automated Commercial Environment (ACE), which will replace the M02 and M07 reports, and continue to monitor the in-bond system through the new in-bond compliance system being developed in the Automated Targeting System (ATS); and
3. Continue to provide outreach and guidance to the field as necessary.

2. Trade Compliance Measurement

Background:

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

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

Condition:

Improvements over the TCM process were observed in FY 2011; however, the following weaknesses related to TCM were identified:

- TCM Coordinators inconsistently use data queries and reports to monitor TCM as TCM Coordinators in the field stated that the ACE reporting functionality is not operating effectively. Instances were identified when the ACE reports listed entries with a VA that had already been closed and/or the reports would not list TCM hits with open VAs. Therefore, the TCM Coordinators did not have a standard functioning method of monitoring TCM.
- Ports did not fully understand the use of the ACE Inbox, which hosts TCM hits. Ports that generate more than 100 hits were not aware of the ACE Inbox functionality allowing users to view additional TCM hits needing attention.
- Headquarters provides the ports with a monthly database, which provides an effective tool to analyze and monitor TCM hits; however, the Headquarters Database for the FY 2011 TCM hits was not made available to the ports until February 2011.
- CBP Directive 3550-074C, *Uniform Input of Entry Summary Review Findings Using the ACE Validation Activity*, issued March 18, 2011, does not provide sufficient information to the TCM Coordinators on how to appropriately review the ACE reports and the Headquarters Database. Details regarding the review, annotations, and maintenance of the reports were not provided.

Criteria:

Presented in *Index of Financial Reporting and Internal Control Criteria* behind Exhibit III.

Cause/Effect:

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

Recommendations:

We recommend that CBP:

1. Continue distribution of the monthly TCM database, which satisfies the requirements for TCM Coordinator and Headquarters oversight of the TCM process at the port level;
2. Ensure ports are appropriately reviewing the ACE reports in accordance with CBP Directive 3550-074C and issue new or updated guidance as needed; and

3. Communicate, at least quarterly, current issues needing attention and resolutions in place to the ports.

3. Bonded Warehouse and Foreign Trade Zones

Background:

Bonded Warehouses (BWs) are facilities under CBP's supervision used to store merchandise that has not made entry into the U.S. commerce. The merchandise stored in such warehouses is secured by the bond on the warehouse. Merchandise is entered into the BW by submission of the CBP Entry Summary Form 7501 and can be stored in the bonded facility for up to five years.

Foreign Trade Zones (FTZs) are secure areas under CBP supervision considered outside of CBP territory. Authority for establishing these facilities is granted by the Foreign Trade Zones Board under the *Foreign Trade Zones Act of 1934*, as amended (19 United States Code (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. Merchandise is admitted into an FTZ using CBP Form 214.

Condition:

Improvements over the BW and FTZ processes were observed in FY 2011; however, the following internal control weaknesses were identified:

- While CBP has developed national databases within ACE, which contain an inventory of all BWs and FTZs, CBP does not use the databases to document the assessed risk of each BW or FTZ, scheduled compliance reviews, or the results of compliance reviews. Although ACE is the system of record, CBP uses SharePoint to document the assessed risk of each BW or FTZ, scheduled compliance reviews, or the results of compliance reviews. In addition, CBP has not conducted a reconciliation of the Facilities Information Resource Management System codes within SharePoint due to known system issues. Furthermore, there are no requirements for Headquarters or the field offices to compare the ACE database to the compliance review schedules submitted by the ports to ensure that all compliance reviews are performed.
- Headquarters compiles a survey that is completed by the ports at the end of each FY to determine the current status of the BW and FTZ programs. CBP performed an analysis over the FY 2011 survey results; however, the detailed analysis was not readily available and was unable to be provided. Additionally, the FY 2011 memo that Headquarters distributed to the ports with the intent to communicate the compliance results of the BW/FTZ programs did not contain detail of CBP's internal analysis and results. The memo reiterated the responsibilities of the CBP Officers over the bonded facilities and commented on the external auditor's results on the operating effectiveness of the program.

Criteria:

Presented in *Index of Financial Reporting and Internal Control Criteria* behind Exhibit III.

Cause/Effect:

CBP does not have updated, formal guidance related to Headquarters' monitoring of the BW and FTZ programs, including procedures to ensure all necessary compliance reviews are scheduled and completed.

Headquarters cannot effectively monitor the BW and FTZ programs as there is no formal requirement for Headquarters to reconcile the database with the compliance reviews conducted.

Recommendations:

We recommend that CBP:

1. Continue to monitor the compliance review results to ensure that the high national compliance rate continues;
2. Continue to review facility profiles in ACE to make sure that profiles are constantly updated;
3. Work within the constraints of the current fiscal parameters to develop additional training and information sharing processes for the ports; and
4. Continue to provide outreach and guidance to the field as necessary.

D. Information Technology

Background:

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

Condition:

During FY 2011, CBP took corrective action to address prior year IT control deficiencies. For example, CBP made improvements over various system logical access processes and system security settings. However, during FY 2011 new and continuing general IT control weaknesses were identified that could potentially impact CBP's financial data. The most significant weaknesses from a financial statement audit perspective related to controls over access to programs and data. 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. Additionally, CBP's current system of record used to process entries imported into the U.S. cannot support all of CBP's operations, which limits CBP's ability to effectively manage and monitor the custodial revenue and drawback processes. Because of the sensitive nature of the issues identified, we will issue a separate restricted distribution report that discusses the IT general control and functionality control deficiencies in more detail.

Criteria:

Presented in *Index of Financial Reporting and Internal Control Criteria* behind Exhibit III.

Cause/Effect:

Funding for IT development and implementation has been reduced in recent years, resulting in delays of systems which would replace or enhance current systems. In addition, because of the presence of IT control and financial system functionality weaknesses, there is added pressure on mitigating controls to operate effectively.

Recommendation:

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

CBP Response:

See management's response included in the attached letter.

Status of Prior Year Material Weakness and Significant Deficiencies

Prior Year Condition	As Reported at September 30, 2010	Status as of September 30, 2011
Drawback of Duties, Taxes, and Fees	**Material weakness:** The Automated Commercial System (ACS) lacked controls to detect and prevent excessive drawback claims and payments, requiring inefficient compensating manual processes. The drawback review policies did not require Drawback Specialists to review all related drawback claims.	**Continue as a material weakness:** Weaknesses continue to exist related to the drawback process in FY 2011. See control finding letter A.
Financial Reporting	**Significant deficiency:** CBP did not have an effective process in place to timely review and analyze contractor information that could impact the financial statements. CBP did not have proper segregation of duties or sufficient review over manual journal entries. Additionally, CBP did not have sufficient controls or documented policies in place to detect errors in its population used to search for unrecorded accounts payable.	**Significant deficiency was remediated in FY 2011.**
Property, Plant, and Equipment (PP&E)	**Significant deficiency:** Weaknesses existed related to timely addressing the valuation of the Secure Border Initiative network (SBInet). As a result, a write-off was identified but was not timely recorded. Weaknesses existed related to the untimely transfer of construction-in-progress (CIP) to fixed assets and an understated value of assets that were placed into service. Several weaknesses existed related to oversight of PP&E, such as not properly performing inventory counts, and recording addition and retirement transactions untimely or inaccurately.	**Continue as a significant deficiency:** Weaknesses continue to exist related to untimely transfer of CIP to fixed assets and recording PP&E additions, reclassifications, and retirements. Additionally, weaknesses continue to exist with recording the percentage of completion for certain construction projects. See control finding B.
Inactive Obligations	**Significant deficiency:** Weaknesses existed in CBP's policies and procedures related to the monitoring of obligations and the timely deobligation of inactive obligations.	**Significant deficiency was remediated in FY 2011.**
Entry Process – In-Bond	**Significant deficiency:** Several weaknesses existed related to in-bond, such as lack of official guidance related to monitoring in-bond shipments at the port level, lack of CBP Headquarters review of the in-bond program, and the overall inability to determine the effectiveness of	**Continue as a significant deficiency:** Weaknesses continued to exist related to in-bond, such as ACS system issues preventing appropriate Headquarters oversight, inadequate documentation of the monthly in-bond analysis,

Prior Year Condition	As Reported at September 30, 2010	Status as of September 30, 2011
	the in-bond program for CBP in its entirety.	inability to track air in-bonds, ineffective monitoring of the M02 and M07 reports, and Tin-Man system limitations. See control finding letter C, section 1.
Entry Process –Trade Compliance Measurement (TCM)	**Significant deficiency:** Weaknesses existed related to TCM, such as inconsistent procedures followed at the ports and development and/or implementation of policies and procedures to ensure reliability and accuracy of TCM input results.	**Continue as a significant deficiency:** Improvements were identified; however, weaknesses continue to exist related to TCM, such as inconsistent use of data queries and reports by TCM Coordinators, Automated Commercial Environment (ACE) reporting functionality limitations, inadequate training on ACE capabilities, inadequate monitoring and insufficient review guidance. See control finding letter C, section 2.
Entry Process – Bonded Warehouse (BW) and Foreign Trade Zones (FTZ)	**Significant deficiency:** Several weaknesses existed related to the BW and FTZ processes, such as inadequate monitoring and documentation, lack of risk assessment guidance and inconsistent procedures at the port level.	**Continue as a significant deficiency:** Weaknesses continue to exist related to the BW and FTZ programs, such as inadequate monitoring and documentation. See control finding letter C, section 3.
Information Technology (IT)	**Significant deficiency:** Weaknesses existed related to IT general and application controls and IT functionality. Specifically, these included findings in the area of general IT security planning and management, logical and physical access to programs and data, segregation of duties, software change management, business continuity, and the ability of systems to accurately and completely track financial transactions.	**Continue as a significant deficiency:** Weaknesses continue to exist related to IT general and application controls and IT functionality. In FY 2011, the majority of prior year findings were unresolved and several new findings were identified See control finding letter D.

Index of Financial Reporting and Internal Control Criteria
(Listed Alphabetically by Criteria Source)

Criteria	Reference	Report Exhibit
Code of Federal Regulations, Title 19	Sections 111.23(a), 163.4, 191.51(b)(1)	I-A
	Sections 18.2(d), 18.6(b), 18.8(b)	II-C-1
	Sections 19.4(a), 146.3	II-C-3
Federal Information Security Management Act		II-D
Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*		I-A, II-B, II-C-1, II-C-3
OMB Circular No. A-127, *Financial Management Systems*		II-D
OMB Circular No. A-130, *Management of Federal Information Resources*		II-D
OMB Circular No. A-136, *Financial Reporting Requirements*	Section II, Subsection 5.3	II-C-2
Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*		II-B
SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*	Section 69.2	II-C-2

1300 Pennsylvania Avenue NW
Washington, DC 20229

U.S. Customs and Border Protection

JAN 20 2012

MEMORANDUM FOR: Anne L. Richards
Assistant Inspector General for Audits
Department of Homeland Security

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

SUBJECT: Management Response to Independent Auditor's Report on U.S. Customs and Border Protection's Fiscal Year 2011 Financial Statements

On behalf of U.S. Customs and Border Protection (CBP), I am responding to the Independent Auditor's Report on CBP's Fiscal Year (FY) 2011 Financial Statements, which is included in our FY 2011 Performance and Accountability Report.

I accept the independent public accounting firm's (KPMG LLP), ***unqualified*** opinion on CBP's FY 2011 Financial Statements, which concluded that CBP's consolidated financial statements are fairly presented in all material respects in conformity with accounting principles.

CBP has reviewed and concurs with the one material weakness and the three significant deficiencies. Mission Action Plans (MAPs) outlining CBP's strategy to correct these conditions were completed and provided to the Office of Financial Management, Department of Homeland Security. CBP will continue to work to resolve all auditor identified weaknesses.

CBP appreciates the opportunity to review this year's audit report and looks forward to continuing our professional auditing relationship with your office. If you have any questions or would like additional information, please contact me at (202) 344-2300, or a member of your staff may contact Jaye M. Williams, Executive Director, Financial Operations, at (202) 344-2364.

Deborah J. Schilling

Deborah J. Schilling

Appendix A
Report Distribution

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Other Accompanying Information

Other Accompanying Information

Revenue Gap

The Entry Summary of Trade Compliance Measurement (TCM) program collects objective statistical data to determine the compliance level of commercial imports with U.S. trade laws, regulations and agreements, and is used to produce a dollar amount for Estimated Net Under-collections, and a percent of Revenue Gap. The Revenue Gap is a calculated estimate that measures potential loss of revenue owing to noncompliance with trade laws, regulations, and trade agreements using a statistically valid sample of the revenue losses and overpayments detected during TCM entry summary reviews conducted throughout the year. For FY 2010 and 2009, the estimated Revenue Gap was $238 million and $285 million, respectively. CBP calculated the preliminary FY 2011 estimated Revenue Gap to be $331 million. As a percentage, the preliminary Revenue Gap for FY 2011 was 0.88 percent of all collectable revenue for the year. The estimated over-collection and under-collection amounts due to noncompliance for FY 2011 and FY 2010 were $71 million and $401 million and $123 million and $361 million, respectively. The overall trade compliance rate for FY 2010 and FY 2009 is 98.63 percent and 98.2 percent, respectively. The preliminary overall compliance rate for FY 2011 is 97.7 percent.

The final overall trade compliance rate and estimated revenue gap for FY 2011 will be issued in February 2012.

Petitioned and Protested Schedule

An analysis of the changes in petitioned and protested assessed amounts during FY 2011 and 2010 is as follows (in thousands):

	2011					
	Balance October 1	Additional Assessments	Protest in Favor of Debtor	Net Reduction Administrative Process	Additional Receivable	Balance September 30
Duties	$ 250,802	$ 99,114	$ (12,043)	$ (125,873)	$ --	$ 212,000
Taxes	4,899	(4,018)	(22)	(171)	--	688
Fees	720	1,997	(88)	(1,462)	--	1,167
Fines/Penalties	1,355,194	681,399	(267,234)	(184,199)	(1,419)	1,583,741
Interest	235,929	(12,672)	(8,120)	(29,801)	--	185,336
Antidumping/ Countervailing Duty	567,345	(169,573)	(26,295)	(78,235)	--	293,242
Refunds and Drawback	6,375	2,592	(108)	(2,049)	--	6,810
Totals	$ 2,421,264	$ 598,839	$ (313,910)	$ (421,790)	$ (1,419)	$ 2,282,984

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

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 12/18/2004) from the bill date to file a protest and application with the Port Director challenging the assessment of supplemental duties, taxes and fees and requesting further review of the protest by CBP Office of Regulations and Rulings. If the Port Director denies the protest and application for further review, the protestor has an additional 60 days from the denial date for a review of the application by the Commissioner of CBP. Consequently, CBP recognizes accounts receivables only when the protested period has elapsed or when a protest decision has been rendered in CBP's favor.

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

Accounts Receivable with Public, Net

An aging of Accounts Receivable with the Public as of September 30, 2011 and 2010 is as follows (in thousands):

	Aged Period					
2011	< or = 90 days	91 days –1 year	1–2 years	2–3 years	3+ years	Total
Reimbursable Services	$ 754	$ 2,262	$ 669	$ 1,823	$ 445	$ 5,953
User Fees	134,891	196	2,349	2,873	15,819	156,128
Gross Receivables	135,645	2,458	3,018	4,696	16,264	162,081
Less Uncollectible Amounts	--	--	686	2,010	16,408	19,104
Net Receivables	$ 135,645	$ 2,458	$ 2,332	$ 2,686	$ (144)	$ 142,977

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

Taxes, Duties and Trade Receivables, Net

An analysis of the changes in accounts receivable during FY 2011 and 2010 is as follows (in thousands):

2011						
Receivable Category	**Balance October 1**	**Receivable Recorded During the Fiscal Year**	**Collections**	**Write-offs**	**Adjustments**	**Balance September 30**
Duties	$ 2,161,519	$ 17,639,980	$ (15,925,225)	$ (718)	$ (1,522,836)	$ 2,352,720
Excise Taxes	121,282	815,445	(712,529)	(1)	(59,872)	164,325
Fees	133,176	1,615,100	(1,532,181)	--	(67,616)	148,479
Fines/ Penalties	454,475	784,709	(56,649)	(108,223)	(637,171)	437,141
Interest	350,652	165,083	(8,881)	(7)	(53,777)	453,070
Antidumping/ Countervailing Duty	551,270	689,341	(225,565)	--	(129,959)	885,087
Refunds/ Drawback	586	715	(502)	--	(142)	657
Totals	$ 3,772,960	$ 21,710,373	$ (18,461,532)	$ (108,949)	$ (2,471,373)	$ 4,441,479
Less: Uncollectible Amounts	1,314,313					1,709,714
Net Receivables	$ 2,458,647					$ 2,731,765

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

An aging of accounts receivables as of September 30, 2011 and 2010 is as follows (in thousands):

2011	< or = 90 days	91 days – 1 year	1–2 years	2–3 years	3+ years	Total
			Aged Period			
Duties	$ 2,187,728	$ 7,676	$ 23,046	$ 21,968	$ 112,302	$ 2,352,720
Excise Taxes	155,031	26	1,851	1,589	5,828	164,325
User Fees	147,411	95	183	429	361	148,479
Fines/Penalties	51,547	61,810	77,719	97,460	148,605	437,141
Interest	69	26,750	42,243	55,438	328,570	453,070
Antidumping/ Countervailing Duty	1,555	126,917	198,524	159,727	398,364	885,087
Refunds and Drawback	2	208	4	171	272	657
Gross Receivables	2,543,343	223,482	343,570	336,782	994,302	4,441,479
Less: Uncollectible Amounts	47,757	193,995	302,160	293,952	871,850	1,709,714
Net Receivables	$ 2,495,586	$ 29,487	$ 41,410	$ 42,830	$ 122,452	$ 2,731,765

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

CBP Collections by Category

(Dollars in thousands)

Duties	**2007** (Unaudited)	**2008** (Unaudited)	**2009** (Unaudited)	**2010** (Unaudited)	**2011** (Unaudited)
Consumption Entries	$ 26,477,180	$ 27,543,807	$ 22,759,054	$ 25,312,699	$ 29,522,341
Warehouse Withdrawals	80,858	76,910	61,638	54,214	41,907
Mail Entries	4,015	4,223	3,132	3,354	3,159
Passenger Baggage Entries	4,528	3,888	3,217	3,616	3,652
Crew Baggage Entries	9	8	5	9	6
Military Baggage Entries	1	1	2	2	3
Informal Entries	56,026	54,537	47,596	56,200	63,689
Vessel Repair Entries	22,938	43,315	39,240	21,521	30,381
Other Duties	57,122	41,277	33,237	9,747	8,359
Total Duties	26,702,677	27,767,966	22,947,121	25,461,362	29,673,497
Miscellaneous					
Violations of CBP Law	56,434	69,993	59,709	60,380	61,532
Testing, Inspecting & Grading	34	5,114	39	58	64
Miscellaneous Taxes	19,726	20,082	19,413	20,382	21,845
USDA Collections	115,168	112,319	110,425	120,637	120,704
Harbor Maintenance Fee	1,261,681	1,467,405	1,125,008	1,221,712	1,469,109
Fees	6,695	8,134	8,397	7,817	5,904
User Fee Account	2,436,087	2,633,600	2,258,027	2,440,275	2,779,483
Unclaimed Funds	479	372	276	188	164
Recoveries	2	9	7	--	--
Interest	13,229	23,987	30,623	13,555	35,577
Other CBP Receipts	17,382	15,325	22,331	15,329	13,838
Total Miscellaneous	3,926,917	4,356,340	3,634,255	3,900,333	4,508,220
Internal Revenue Taxes	2,537,098	2,372,762	2,468,617	2,782,240	2,796,788
Total Collections	$ 33,166,692	$ 34,497,068	$ 29,049,993	$ 32,143,935	$ 36,978,505

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

CBP Collections by Major Processing Port Locations

(Dollars in thousands)

	2007 (Unaudited)	2008 (Unaudited)	2009 (Unaudited)	2010 (Unaudited)	2011 (Unaudited)
Boston	$ 490,841	$ 473,272	$ 399,974	$ 352,710	$ 345,490
Buffalo-Niagara Falls	211,699	219,508	242,514	342,659	294,659
Ogdensburg	155,739	150,884	119,537	132,890	132,567
Portland, Maine	59,000	62,549	55,795	54,993	60,124
Providence	92,454	80,518	75,706	82,532	112,008
St. Albans	42,897	32,817	43,030	46,778	46,145
Baltimore	586,224	637,952	544,222	615,025	629,569
Philadelphia	650,157	588,607	456,252	422,253	448,508
Newark	4,552,031	4,642,846	4,036,961	4,347,759	5,025,814
JFK Airport	1,234,035	1,216,836	863,404	961,149	1,017,668
Charleston	1,030,435	1,002,353	820,601	858,098	1,043,719
Miami	733,596	634,894	520,283	600,506	771,770
San Juan	110,913	108,981	106,167	101,368	117,235
St. Thomas	16,074	17,145	15,301	16,720	14,948
Savannah	1,438,061	1,550,580	1,408,693	1,643,027	1,985,424
Tampa	506,870	516,533	358,532	425,038	447,629
Wilmington	314,993	328,933	267,905	294,996	304,612
Norfolk	685,494	709,807	634,642	604,357	704,551
NFC Indianapolis/Washington	1,518,378	1,941,618	1,107,891	1,418,106	1,650,976
Mobile	142,869	196,619	157,615	168,661	180,997
New Orleans	1,055,211	1,145,196	942,917	1,011,820	1,232,590
Dallas/Ft Worth	444,678	460,147	409,354	428,898	527,570
El Paso	196,930	173,202	140,143	139,378	144,829
Houston	805,245	909,631	764,115	735,314	919,704
Laredo	395,215	411,218	371,492	424,299	583,472
Port Arthur	32,604	33,725	33,665	28,584	30,079
Nogales	82,999	82,410	73,703	84,353	96,259
Los Angeles	8,138,181	8,387,589	7,468,426	8,565,244	9,715,689
San Diego	303,717	294,529	218,071	216,275	221,490
Anchorage	110,296	116,518	106,594	124,792	134,253
Honolulu	39,955	43,013	32,732	32,816	36,089
Portland	454,523	443,190	318,839	303,922	312,337
San Francisco	1,084,934	1,161,110	1,035,916	1,115,329	1,301,094
Seattle	1,274,972	1,264,836	1,122,774	1,145,325	1,307,307
Chicago	1,560,159	1,664,181	1,407,416	1,602,089	1,916,811
Cleveland	1,385,583	1,528,043	1,293,102	1,490,599	1,710,571
Detroit	538,879	563,036	446,972	528,280	625,148
Milwaukee	36,056	37,766	24,687	24,786	23,183
Minneapolis	180,724	198,610	170,645	187,866	244,880
Pembina	18,982	23,635	23,254	23,483	25,078
St. Louis	287,356	282,539	273,758	304,941	364,369
Great Falls	166,733	159,692	136,393	135,917	171,290
Total Revenues Collected	$ 33,166,692	$ 34,497,068	$ 29,049,993	$ 32,143,935	$ 36,978,505

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

Summary of Financial Statement Audit and Management Assurances

Table 1 and Table 2 below provide a summary of the financial statement and management assurances for FY 2011.

Table 1: FY 2011 Summary of the Financial Statement Audit

Audit Opinion	**Unqualified**				
Restatement	**No**				
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Custodial Revenue and Drawback Controls	1	0	0	0	1
Total Material Weaknesses	1	0	0	0	1

In FY 2011, the Independent Auditor's consolidated financial statement report identified one material weakness, Custodial Revenue and Drawback Controls, for CBP.

Table 2: FY 2011 Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (FMFIA Section 2)						
Statement of Assurance	**Qualified**					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Custodial Revenue and Drawback Controls	1	0	0	0	0	1
Total Material Weaknesses	1	0	0	0	0	1

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

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

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

Improper Payments Elimination and Recovery Act (IPERA)

The Improper Payments Information Act (IPIA) of 2002 was amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010.

CBP identified and performed a risk assessment on all nine programs, three of which were identified as high risk. The Custodial Continued Dumping Subsidy Offset Act (CDSOA) and Wool Manufacturers payment testing has not identified any improper payments in the past three years. As a result, OMB granted relief from testing this program until FY 2013. For FY 2011 reporting, a stratified sampling design was used to test payments based on FY 2010 disbursement amounts and the assessed risk of the program. Sampling plans provided an overall estimate of the percentage of improper payment dollars within +/- 2.5 percent precision at the 90 percent confidence level, as specified by OMB guidance. The following procedure describes the sample selection process:

- Identify large payment dollars as the certainty stratum;
- Assign each payment a randomly generated number using a seed;
- Sort payments within each stratum (by ordered random numbers); and
- Select payments following the sample size design. For the certainty strata, all payments are selected.

The Custodial Refund and Drawback payment testing yielded an estimated improper payment amount of $3.3 million of the $1.2 billion, or .28 percent, disbursed during fiscal year 2010. The Border Security Fencing payment testing yielded an estimated improper payment amount of $21 thousand of the $364 million testing population, or .01 percent, disbursed during fiscal year 2010. The IPIA testing resulted in immaterial findings; therefore, the development of corrective action plans is not cost effective.

Improper Payment (IP) Reduction Outlook

	2010	2010	2010	2011	2011	2011	2011	2011	2012	2012	2012	2013	2013	2013	2014	2014	2014
Program	**PY Outlays**	**PY IP %**	**PY IP $**	**CY Outlays**	**CY IP %**	**CY IP $**	**CY Over-payment $**	**CY Under-payment $**	**CY + 1 est. Outlays**	**CY + 1 IP %**	**CY + 1 IP $**	**CY + 2 est. Outlays**	**CY + 2 IP %**	**CY + 2 IP $**	**CY + 3 est. Outlays**	**CY + 3 IP %**	**CY + 3 IP $**
Refund & Drawback	$1,198M	.28	$3M	$1,405M	.17	$2M	$691,853	$0	$1,300M	.17	$2M	$1,300M	.17	$2M	$1,300M	.17	$2M
Border Security Fencing	$364M	.01	$0	$396M	.01	$0	$0	$14,148	$528M	.01	$0	$458M	.01	$0	$461M	.01	$0

The forecast of activity related to Refund and Drawback depends on indeterminable factors including the volume of trade activity and various trade related issues addressed and ruled on by the Department of Commerce.

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

	Amounts Identified as Improper Payments	Amounts Identified for Recovery	Amounts Recovered
Custodial Refund and Drawback	$ 3,295	$ 0	$ 0
Border Security Fencing	$ 21	$ 0	$ 0
Totals	$ 3,316	$ 0	$ 0

Recoveries for Custodial Refund and Drawback Program payments are restricted by regulations governing collections of duty, taxes, and fees associated with trade-related activity. Recovery of the improper payments for Border Security Fencing is not required as both payments were for Prompt Payment Interest that was earned but not paid.

Overpayments Recaptured Outside of Payment Recapture Audits

Agency Source	Amount Identified CY	Amount Recovered CY	Amount Identified PY	Amount Recovered PY	Cumulative Amount Identified (CY+PYs)	Cumulative Amount Recovered (CY+PYs)
IPIA Sampling	$ 496	$ 1,441	$ 5,409	$ 13,635	$ 247,859	$ 245,755
Self-Reporting	$ 112,381	$ 112,381	$ 62,064	$ 62,064	$ 174,445	$ 174,445
Public Reporting	$ 990,276	$ 990,276	$ 266,231	$ 266,231	$ 1,256,507	$ 1,256,507

Payment Recapture Audit Reporting

CBP contracted the audit recovery work for disbursements made during fiscal year 2010. The results of the recovery audit efforts continue to identify negligible recovery amounts. The recovery audit results are reported below:

Program or Activity	Type of Payment (contract, grant, benefit, loan, or other)	Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported CY	Amounts Identified for Recovery CY	Amounts Recovered CY
CBP Mission	Contract	$ 2,344,513,241	$ 2,344,513,241	$ 496	$ 1,441

% of Amount Recovered out of Amount Identified (CY)	Amount Outstanding (CY)	% of Amount Outstanding out of Amount Identified (CY)	Amount Determined Not to be Collectable (CY)	% of Amount Determined Not to be Collectable out of Amount Identified (CY)	Amounts Identified for Recovery PY
100	0	0	0	0	$ 247,363*

Amounts Recovered PY	Cumulative Amounts Identified for Recovery (CY + PY)	Cumulative Amounts Recovered (CY + PY)	Cumulative Amounts Outstanding (CY + PYs)	Cumulative Amounts Determined Not to be Collectable (CY + PYs)
$ 244,314	$ 247,859	$ 245,755	$ 2,104	$ 0

*Amount fluctuates from year to year based on previously identified recoveries determined to be invalid.

Disposition of Recaptured Funds

Program or Activity	Type of Payment (contract, grant, benefit, loan, or other)	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury
CBP Mission	Contract	$ 0	$ 124	$ 0	$ 372	$ 0	$ 0

Payment Recapture Audit Targets

Program or Activity	Type of Payment (contract, grant, benefit, loan, or other)	CY Amount Identified	CY Amount Recovered	CY Recovery Rate (Amount Recovered/ Amount Identified)	CY + 1 Recovery Rate Target	CY + 2 Recovery Rate Target	CY + 3 Recovery Rate Target
CBP Mission	Contract	$496	$496	100%	100%	100%	100%

Aging of Outstanding Overpayments

Program or Activity	Type of Payment (contract, grant, benefit, loan, or other)	CY Amount Outstanding (0–6 months)	CY Amount Outstanding (6 months to 1 year)	CY Amount Outstanding (over 1 year)
CBP Mission	Contract	$ 0	$ 0	$ 2,104

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

The DHS OIG's report on Major Management Challenges Facing the Department of Homeland Security, OIG-12-08, dated November 10, 2011, and the agency's progress addressing these challenges are addressed at the DHS consolidated level and are incorporated into the DHS Fiscal Year 2011 Annual Financial Report (www.dhs.gov/xlibrary/assets/mgmt/cfo_afrfy2011_vol3.pdf).

Acronyms

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

Acronyms

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

Acronyms

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

Acronyms

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

Acronyms

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

U.S. Customs and
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March 2012