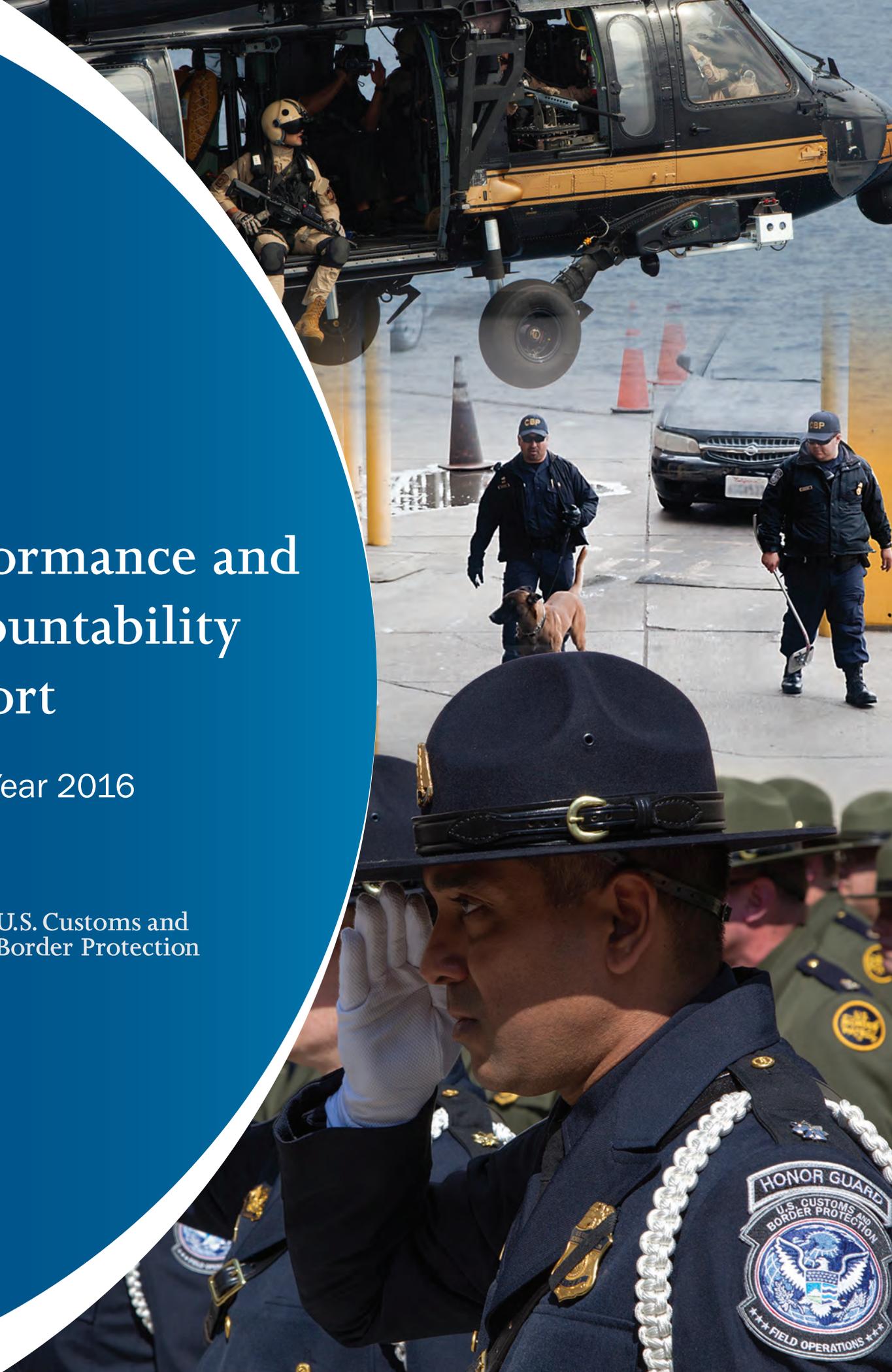


Performance and Accountability Report

Fiscal Year 2016



U.S. Customs and
Border Protection



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Performance and Accountability Report

Mission Statement:

To safeguard America's borders thereby protecting the public from dangerous people and materials while enhancing the Nation's global economic competitiveness by enabling legitimate trade and travel



U.S. Customs and
Border Protection

Core Values

Vigilance

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

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

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

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About This Report

The U.S. Customs and Border Protection (CBP, or the agency) Fiscal Year (FY) 2016 Performance and Accountability Report (PAR) 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, the President, and the public to assess its performance as it relates to the CBP mission.

The CBP PAR discusses the Agency's strategic goals and objectives and compares its actual performance results to performance targets which align with the Department of Homeland Security (DHS) major missions established by the DHS Strategic Plan 2014-2018 and that support the requirements of the *Government Performance and Results Act (GPRA)* and the *GPRA Modernization Act (GPRAMA)* of 2010. The CBP PAR is also prepared in accordance with the provisions of the Office of Management and Budget (OMB) Circular No. A-136, with respect to the information presented in the Financial Section of this report. The Management's Discussion and Analysis and the Performance sections of the PAR are prepared in accordance with certain provisions of the Reports Consolidation Act of 2000 (Public Law 106-531), GPRAMA, Chief Financial Officer's (CFO) Act of 1990 (Public Law 101-576), and other financial management statutes and reports.

This report summarizes the Agency's major mission strategies (i.e., programs and initiatives) under its strategic goals and objectives as outlined in CBP's current Strategic Plan – CBP Vision and Strategy 2020. Additional information related to specific programs, initiatives, tools, and resources to achieve Agency goals and objectives is contained in the FY 2016 DHS Congressional Budget Justification for the President's Budget, which details information by DHS component.

CBP's FY 2016 PAR and the Summary of Performance and Financial Information is available online at <https://www.cbp.gov/newsroom/publications>.

For more information:

U.S. Customs and Border Protection
Office of Finance
1331 Pennsylvania Avenue, NW, Suite 1555
Washington, DC 20004

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CBP At A Glance



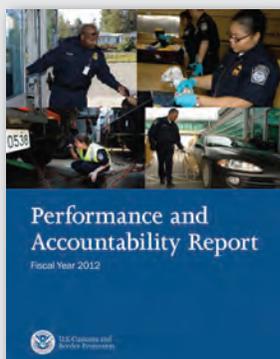
Established	2003
Headquarters	Ronald Reagan Building 1300 Pennsylvania Avenue NW, Washington, DC 20229
Commissioner	R. Gil Kerlikowske
2016 Total Employees	Approximately 59,000
Net Budget Authority	\$15.1 billion

Foreword

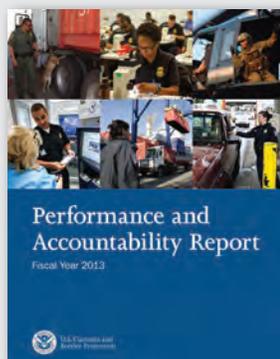
CBP is part of DHS. OMB requires DHS to implement the CFO Act of 1990 and prepare consolidated financial statements, which include component agencies' financial information. CBP consolidates key data and information and provides it to DHS for incorporation into its corresponding reports. Although not required, CBP also undergoes a standalone, independent audit of its annual financial statements, and prepares annual financial statements and a PAR using the same statutory and guidance framework used by DHS. CBP has undergone a standalone, independent audit of its annual financial statements, and produced its own PAR or Agency Financial Report since FY 2003.

CBP's FY 2016 PAR provides an overview of the Agency's financial and performance data to help Congress, the President, and the public assess its performance and stewardship of resources. CBP strives to raise the bar with top performance and financial accountability and help DHS and the Federal Government excel in providing high-quality services and products to American taxpayers. This report and reports from prior years are available on the CBP website at <https://www.cbp.gov/newsroom/publications>.

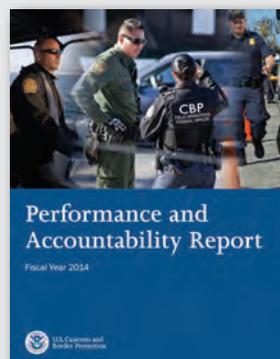
Links to previous years' PARs



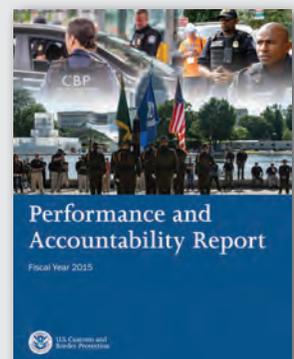
FY 2012 PAR



FY 2013 PAR



FY 2014 PAR



FY 2015 PAR



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Message from the Commissioner



Fiscal Year (FY) 2016 has been a productive and proud year for the men and women of U.S. Customs and Border Protection (CBP). Our daily operations fulfill our core mission of safeguarding America's borders, protecting the public from dangerous people and materials, and enhancing the Nation's global economic competitiveness by facilitating legitimate trade and travel.

The FY 2016 Performance and Accountability Report (PAR) for CBP discusses our challenges, accomplishments, performance results, financial information, interesting facts, and noteworthy stories of success as the Nation's premier law enforcement agency.

CBP is the second largest revenue collection agency that collects more than \$44 billion in revenue per year for the Federal Government; therefore, we owe the public total transparency in our stewardship responsibilities.

Our PAR describes how we manage our resources and administer our programs, demonstrating our total commitment to responsible stewardship. It provides an opportunity to communicate to the public our programs, challenges, and accomplishments in achieving our mission. For example, the Management Assurances section contains information relating to the reliability and completeness of the financial and performance information and the actions CBP has taken to enhance its effectiveness and efficiency. We work hard to meet the public's expectations and continue to make great strides by focusing on our four strategic goals:

- Counter Terrorism and Transnational Crime
- Advance Comprehensive Border Security and Management
- Enhance U.S. Economic Competitiveness by Enabling Lawful Trade and Travel
- Promote Organizational Integration, Innovation, and Agility

As the guardians of our Nation's borders, CBP serves in a crucial leadership role for America's national security and trade interests, and sets the standard for excellence through the unifying tenets of collaboration, innovation, and integration.

In FY 2016, 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 increases in illegal drug seizures and apprehensions of illegal border crossers.

The goal of the PAR remains to provide Congress and the American public with timely, reliable, and useful financial information and to illustrate the value and impact of CBP's contributions to U.S. prosperity and security. This same information enables CBP managers to make sound business decisions, improve our processes, and increase our efficiency and effectiveness as we execute our vital missions on a daily basis.

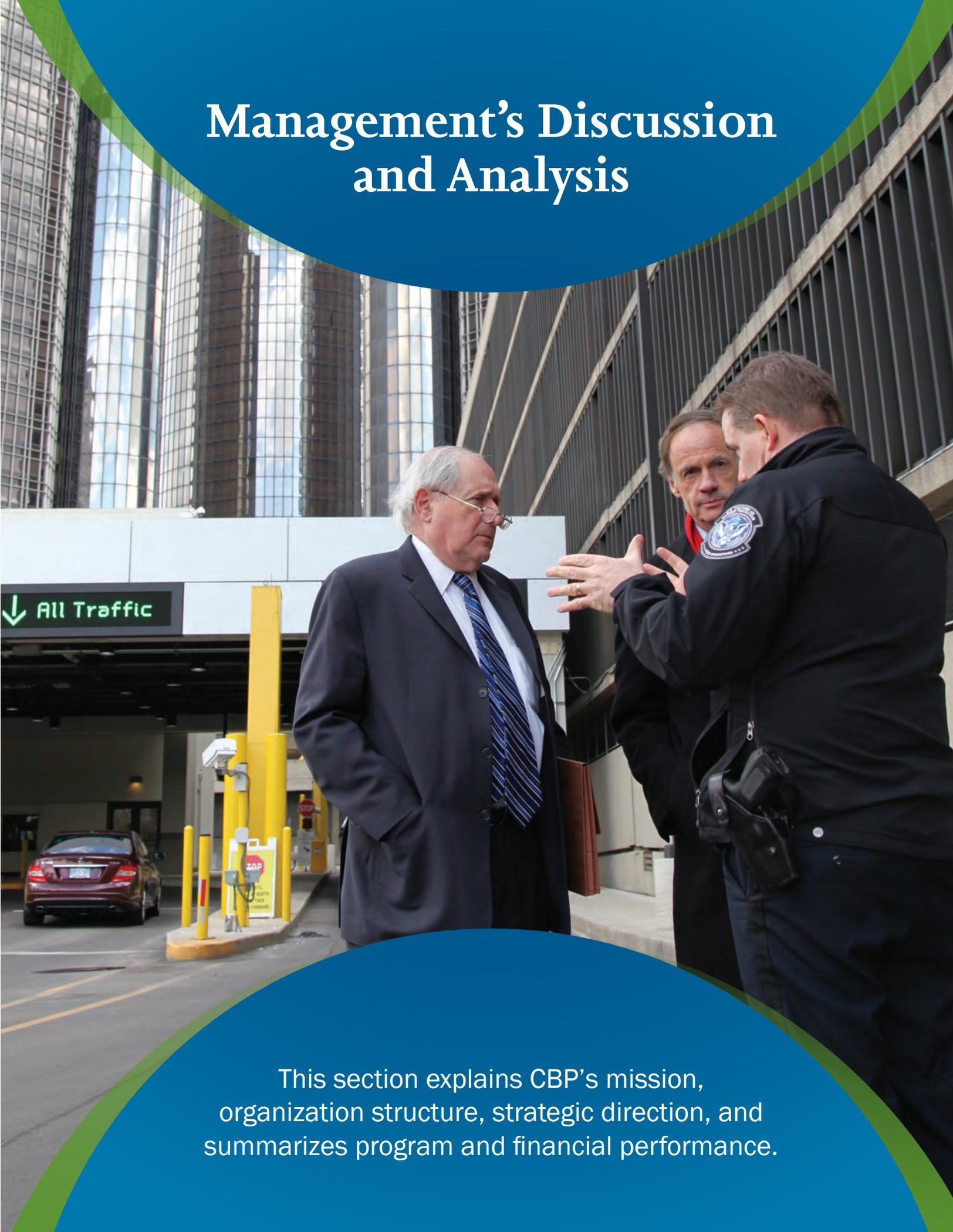
Looking ahead to FY 2017, CBP will dedicate significant time and effort to making sound investments – in technology and the people who use it – while solidifying existing and developing new partnerships that will yield benefits for years to come.

R. Gil Kerlikowske

A handwritten signature in black ink that reads "R. N. Kerlikowske". The signature is written in a cursive, slightly slanted style.

Commissioner
January 18, 2017

Management's Discussion and Analysis



This section explains CBP's mission, organization structure, strategic direction, and summarizes program and financial performance.

Mission and Organizational Structure

Overview of CBP

The creation of CBP in 2003 began a process that brought together previously disparate organizations, each with a rich history and unique culture, to form a unified Federal border authority.

Following the Homeland Security Act of 2002, which established DHS, CBP was formed by merging the U.S. Customs Service, the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS), and major elements of the U.S. Immigration and Naturalization Service, including the U.S. Border Patrol and Immigration Inspection Program. Later, CBP added the Air and Marine Operations from the U.S. Immigration and Customs Enforcement (ICE), and most recently, select functions of DHS's former U.S. Visitor and Immigration Status Indicator Technology (US-VISIT). As the resulting Federal law enforcement agency, CBP provides far greater operational capability than the sum of its parts.

CBP plays a crucial role in supporting the President's National Security Strategy by safeguarding and managing America's borders, maintaining domain awareness to prevent terrorist attacks, intercepting malicious criminals and materials, and enforcing U.S. laws at its borders.

CBP's MISSION

To safeguard America's borders, thereby protecting the public from dangerous people and materials while enhancing the Nation's global economic competitiveness by enabling legitimate trade and travel.

CBP employees pursue these mission themes every day as they safeguard America at its borders with vigilance, selfless service, and unyielding integrity.

CBP employees pursue these mission themes every day as they safeguard America at its borders with vigilance, selfless service, and unyielding integrity. CBP's approximately 59,000 employees manage, control, and protect the Nation's borders at and between 328 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. While CBP's mission is complex and diverse, the principal operational requirements can be summarized in three distinct and mutually supporting themes:

- Protect the American people;
- Protect the national economy; and
- Safeguard and manage the U.S. air, land, and maritime borders.



CBP's VISION

To serve as the premier law enforcement agency enhancing the Nation's safety, security, and prosperity through collaboration, innovation, and integration.

CBP aspires to be a global leader in promoting strong security and trade partnerships that foster a safe, secure, and prosperous America and international community. CBP will continue to mature and advance the following strategic themes through unyielding commitment to safeguard America's borders while enhancing global economic competitiveness:

- **Collaboration.** Improved collaboration throughout CBP and with its stakeholders provides a shared sense of purpose, enhanced understanding of the operating environment, increased trust, and complementary engagement.
- **Innovation.** Understanding that global challenges and opportunities in trade, security, and immigration are constantly evolving, CBP is committed to leveraging science, technology, and corporate innovation to ensure optimal capabilities development for peak performance.
- **Integration.** Integration enables CBP to better leverage global enforcement resources through national whole of government and international unity of effort approaches and practices.

To ensure we meet our vision, CBP tracks several statistics to gauge and report. The following table identifies a few of the key statistics we track.

CBP Statistical Highlights FY 2013 – 2016

	FY 2013	FY 2014	FY 2015	FY 2016
Total employees	59,969	59,544	59,472	59,201
Total revenue ¹	\$40.9 billion	\$43.5 billion	\$45.8 billion	\$44.6 billion
Total assets	\$15.5 billion	\$16.2 billion	\$16.2 billion	\$16.0 billion
Total net position	\$9.4 billion	\$9.5 billion	\$9.4 billion	\$9.3 billion
Total net cost of operations	\$12.6 billion	\$12.9 billion	\$13.3 billion	\$13.9 billion
Total budgetary resources	\$16.2 billion	\$17.3 billion	\$19.5 billion	\$19.3 billion
Ports of entry	328	328	328	328
Preclearance locations	15	16	16	16
Border Patrol sectors	20	20	20	20
Air units	43	41	40	39
Marine units	71	71	71	72
Trade entries processed	30.4 million	31.6 million	32.9 million	32.4 million
Illegal narcotics seized ²	2.8 million pounds	2.5 million pounds	2.2 million pounds	2.0 million pounds
Illegal alien apprehensions between ports of entry	420,789	486,651	337,117	415,816
Inadmissible aliens interdicted at ports of entry	204,905	223,712	255,342	274,821
Pedestrians and passengers processed	362 million	375 million	383 million	390 million
Conveyances processed	110 million	113 million	118 million	116 million
Aircraft passengers processed	102 million	107 million	112 million	119 million
Prohibited plant and animal materials seized at ports of entry	1,603,944	1,623,294	1,659,907	1,772,372
Agricultural plants and pests intercepted at ports of entry	161,050	155,247	171,434	169,648

¹ Includes custodial and entity revenue

² Represents narcotics held by CBP until disposal or destruction

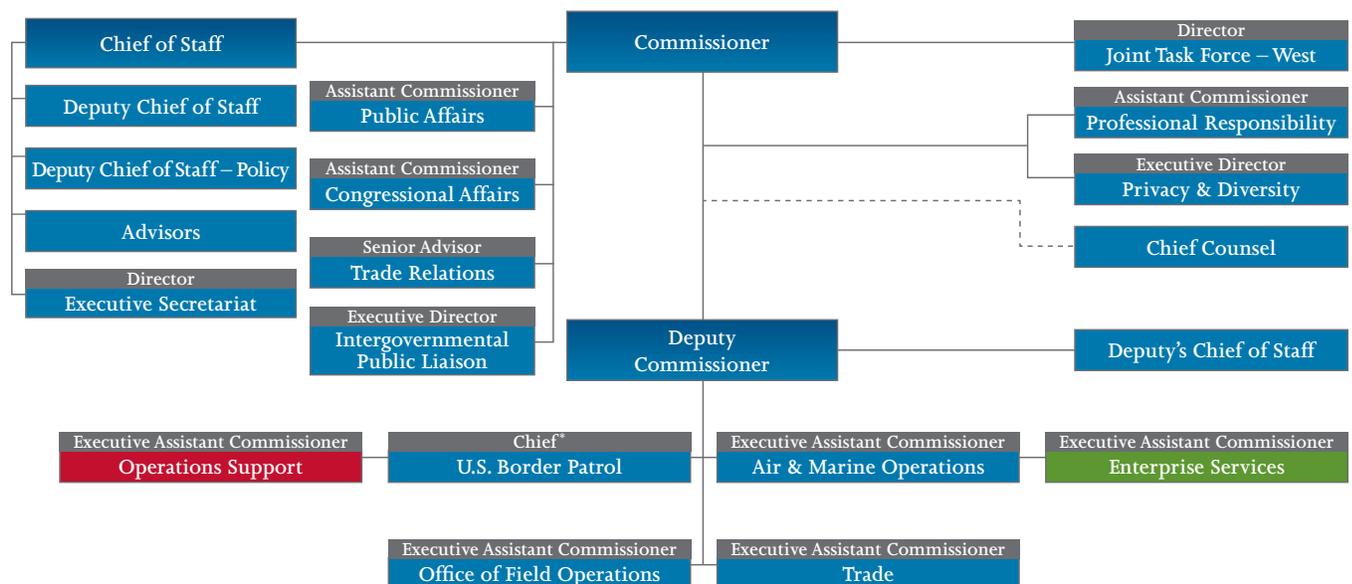
CBP Organization Realignment 2016

On June 15, 2016, CBP realigned the headquarters organizational structure to more effectively execute CBP's mission in an ever-changing operational environment.

This is the culmination of a year's planning and discussing the proposed changes with stakeholders, including Congress, which began in February of 2015 when Commissioner Kerlikowske tasked CBP leadership with designing a more effective organization that would better serve the needs of frontline personnel. To accomplish this, offices with complementary functions were grouped under Enterprise Services (ES), while those that support operators exclusively were grouped under Operations Support (OS).

The figure below represents CBP's component offices after the organizational realignment, with descriptions of each of the component offices. Detailed figures of the offices making up ES and OS, and their related descriptions are also included below.

CBP Organization



*Chief of USBP has rank of Executive Assistant Commissioner

Commissioner: The Commissioner is responsible for securing, managing, and controlling the Nation's borders and advancing CBP's mission by preventing terrorists and terrorist weapons from entering the U.S., while facilitating legitimate trade and travel.

Deputy Commissioner: The Deputy Commissioner provides leadership and executive-level direction on CBP's day-to-day operations, including 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): The COS serves as the direct liaison to DHS for all Agency issues. The COS assists the Office of the Commissioner in formulating and implementing policies through coordination with other CBP offices, DHS, and other government agencies. The COS provides advice and counsel to the Commissioner in defining priorities to accomplish CBP's mission and goals.

Joint Task Force-West (JTF-W): JTF-W is a pilot task force supported by DHS, with CBP as the executive agent, to coordinate the security objectives of the Southwest border (SWB) corridors. To support the JTF-W, CBP adopted a uniform Integrated Corridor Operations model across the four SWB corridors (JTF-W California Corridor, JTF-W Arizona Corridor, JTF-W New Mexico-West Texas Corridor, and JTF-W South Texas Corridor) to collectively coordinate targeting of DHS shared threats and priorities to disrupt and dismantle transnational criminal organizations (TCOs).

Office of Public Affairs (OPA): OPA communicates to external and internal audiences to build support for CBP's mission. Audiences include the American public, international trade and travel stakeholders, travelers who cross U.S. borders, and U.S. and international government agencies. OPA designs and manages the content of the public-facing website CBP.gov and manages internal communication platforms, including "CBP in 60," CBP Postmaster, and CBPnet, the internal Agency website.

Office of Congressional Affairs (OCA): OCA serves as the single point of contact within CBP to manage communications between CBP and Congress, advises CBP leadership on Congressional activities, develops and promotes CBP's legislative program, and supports DHS Congressional activities as they relate to CBP.

Office of Trade Relations (OTR): OTR manages CBP's outreach and communications with the international trade community. OTR serves as the designated regulatory fairness representative for the Agency, promoting compliance with the Small Business Regulatory Enforcement Fairness Act, and managing the Commercial Customs Operations Advisory Committee (COAC) and the User Fee Advisory Committee (UFAC), two congressionally mandated trade advisory groups.

Office of Intergovernmental Public Liaison (IPL): IPL advises the Commissioner, Deputy Commissioner, and program offices regarding the impact of CBP policies and initiatives on state and local stakeholders. IPL informs state and local stakeholders of current and proposed CBP programs, assists stakeholders in addressing concerns with CBP programs, and assists in building and maintaining partnerships between CBP and state and local governments.

Office of Professional Responsibility (OPR) (formerly Office of Internal Affairs): OPR serves as the oversight authority for all aspects of CBP operations, personnel, and facilities. OPR is responsible for ensuring compliance with all CBP-wide programs and policies relating to corruption, misconduct, or mismanagement and for executing the internal security and integrity awareness programs. OPR screens potential CBP employees for suitability; conducts polygraph examinations for law enforcement applicants; educates employees regarding integrity responsibilities; and maintains a robust investigative capability to investigate allegations of employee corruption.



Office of Privacy and Diversity (PDO): PDO develops and administers all CBP programs and activities necessary to comply with the Privacy Act of 1974, the Freedom of Information Act (FOIA), the Prison Rape Elimination Act, and all applicable Federal anti-discrimination laws, civil rights and liberties, regulations, and policies necessary to facilitate lawful travel and trade across U.S. borders, while ensuring national security and economic prosperity.

Office of Chief Counsel (OCC): The Chief Counsel serves as CBP's Chief Legal Officer and reports to the DHS General Counsel. The Chief Counsel also serves as the Chief Ethics Official for the Agency and is the principal legal advisor to the CBP Commissioner. OCC provides legal advice to and legal representation for CBP personnel in matters relating to CBP activities and functions.

U.S. Border Patrol (USBP): USBP serves as the CBP law enforcement organization with the primary responsibility of preventing terrorists and their weapons, illegal aliens, and drugs and those who smuggle them, from entering the U.S. between ports of entry. Some of the major activities include linewatch, maintaining traffic checkpoints along highways leading from border areas, conducting city patrol and transportation checks, and anti-smuggling investigations. USBP has 20 sectors along the southwestern, northern, and coastal areas of the United States.

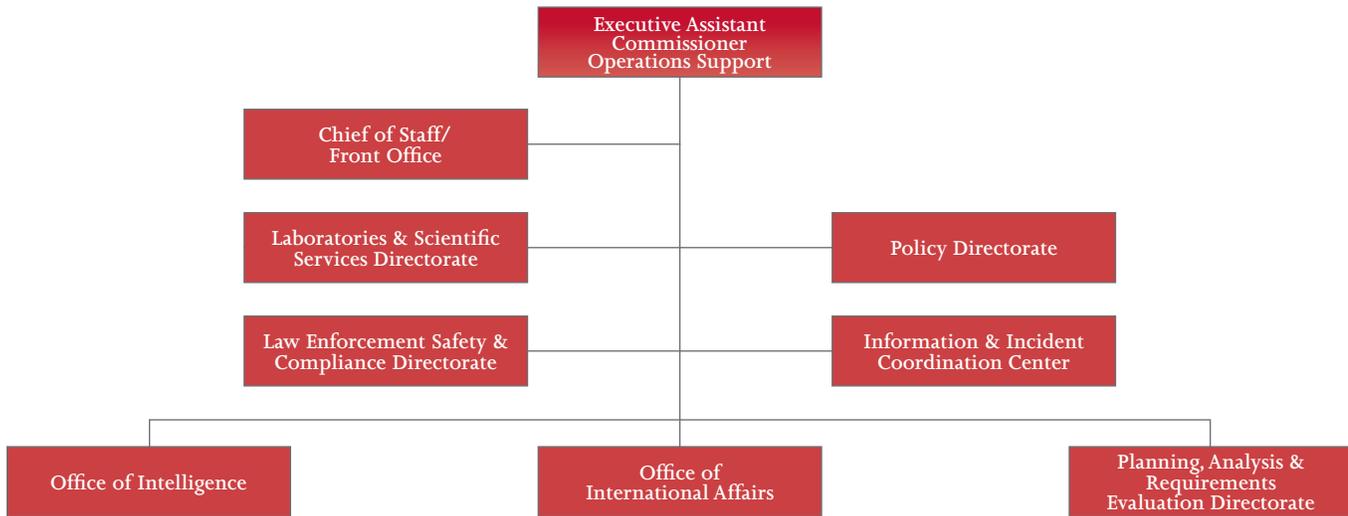
Office of Field Operations (OFO): OFO enforces customs, immigration, and agriculture laws and regulations at U.S. borders and has the primary responsibility of preventing terrorists and their weapons from entering the U.S. at ports of entry. OFO maintains programs at 20 field operation offices; 328 ports of entry; 10 Centers of Excellence and Expertise (CEE) with trade resources located across the nation at the ports of entry; 16 preclearance stations in Canada, the Caribbean, Ireland, and the United Arab Emirates; 60 Container Security Initiative (CSI) ports worldwide; and 12 Immigration Advisory Program (IAP) and Joint Security Program (JSP) locations worldwide. OFO oversees the enforcement of laws and regulations while ensuring the safe and efficient flow of goods and people through ports of entry.

Air and Marine Operations (AMO): AMO is a federal law enforcement organization dedicated to serving and protecting the American people through advanced aeronautical and maritime capabilities. With 1,637 federal agents and mission support personnel, 239 aircraft, and 315 marine vessels operating throughout the United States, Puerto Rico, and the U.S. Virgin Islands, AMO interdicts unlawful people and cargo approaching U.S. borders, investigates criminal networks and provides domain awareness in the air and maritime environments, and responds to contingencies and national taskings.



Office of Trade (OT): OT provides unified, strategic direction for trade policy and program development. OT directs national enforcement responses and takes punitive actions against companies participating in predatory trade practices, including transshipments, Intellectual Property Rights (IPR) infringement, and commodity dumping. OT directs risk-based investigation, detection, and prevention programs to identify imports that present public health or safety risks and products requiring protection from unfair trade practices.

Operations Support



Chief of Staff (COS): The COS serves as the direct liaison for all OS issues.

Laboratories & Scientific Services Directorate (LSSD): LSSD provides scientific testing, forensic analysis, and technical services in the areas of trade enforcement, forensics, and border security for law enforcement determinations. LSSD scientists operate CBP field laboratories, satellite laboratories, and technical centers, providing state-of-the-art scientific commodity analysis, technical advice, forensic analysis (including digital), Weapons of Mass Destruction (WMD) support, and other scientific services.

Law Enforcement Safety & Compliance (LESC) Directorate (formerly Use of Force Center): LESC is responsible for the development and articulation of all CBP use of force policy. In supporting the tasks, functions, and mission requirements of each CBP operational component, LESC is dedicated to optimizing the safety, readiness, accountability, and operational performance of CBP law enforcement personnel by articulating use of force policy, establishing appropriate controls and standards, and supplying the highest quality education and training, weapons, and other tactical equipment.

Policy Directorate: The Policy Directorate ensures a unified approach to policy management across CBP and facilitates consistent and comprehensive policy development and implementation.

Information and Incident Coordination Center (IICC): The IICC enhances internal and external situational awareness and coordinates CBP’s incident response capabilities. IICC serves as a 24/7 central entry point of communication and information flow for field CBP and DHS management officials.

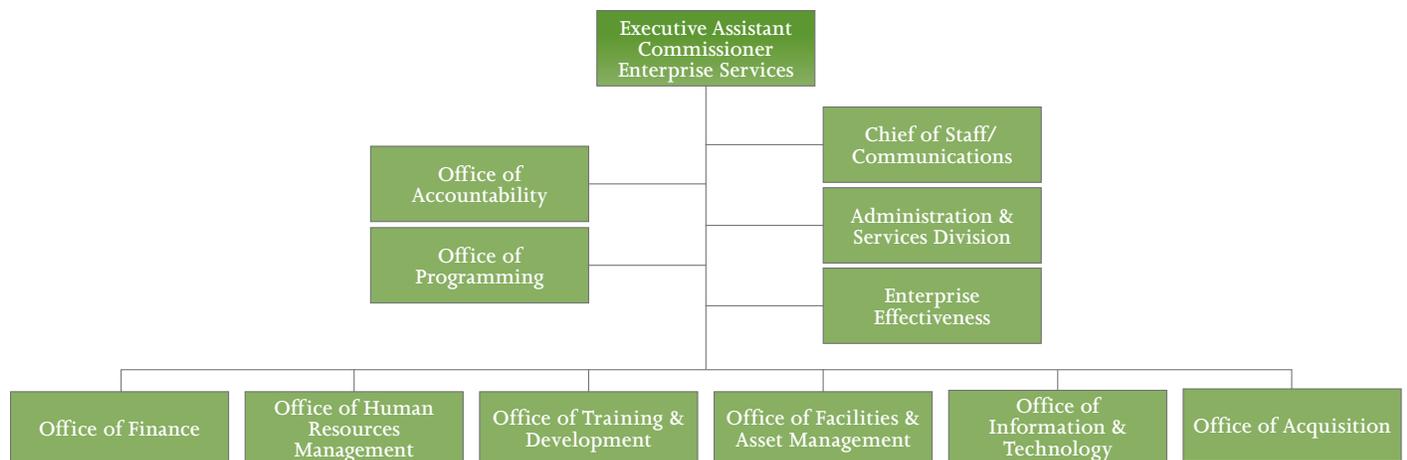
Office of Intelligence (OI): OI develops, coordinates, and implements intelligence capabilities to support CBP’s mission to secure America’s borders while facilitating legitimate trade and travel. OI integrates CBP’s

diverse intelligence capabilities into a cohesive intelligence enterprise. OI supports CBP’s mission through a multi-layered approach, which includes collection and analysis of an abundance of data, including advance traveler and cargo information; managing CBP’s counterintelligence operations; use of enhanced law enforcement technical collection capabilities; 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): INA coordinates and supports CBP’s foreign initiatives, programs, and activities. This includes establishing partnerships with U.S. Government agencies, foreign administrations, and international organizations. Through its 22 Attaché offices, 8 Advisory locations, and Representatives assigned to 3 Unified Combatant Commands (UCCs) in the Department of Defense (DoD), INA coordinates CBP’s international engagements by implementing programs and initiatives that promote global best practices in border enforcement and capacity building.

Planning, Analysis, and Requirements Evaluation (PARE) Directorate: PARE drives a unifying and risk-based approach to prepare for the future and enable informed decision-making.

Enterprise Services



Office of Accountability (OACT): OACT tracks CBP’s progress toward its goals and evaluates effectiveness and efficiency of programs.

Office of Programming (OP): OP translates CBP’s five-year strategic plan into individual efforts (programs) to ensure that CBP can reach its long-term goals.

Chief of Staff (COS)/Communications: The COS serves as the direct liaison for all ES issues. Communications bridges the gap between people and information in Enterprise Services.

Administrative Services Division: Administrative Services Division leads, facilitates, coordinates, and executes key business and administrative support services, and its mission support staff serves all of ES’s administrative and mission support needs.

Enterprise Effectiveness (EE): EE oversees, manages, and improves strategic resource management, leadership development, business practices, customer relations, and use of business information for organizational performance management, customer service, and strategic decision-making.



Office of Finance (OF): OF serves as the principal advisor to CBP senior leadership for budgetary and fiscal matters. OF's responsibilities include financial management, revenue collection and management, accounting policy and systems, internal control systems, budget formulation and execution, audit administration, and general business improvement programs. OF administers CBP's \$15.1 billion net budget authority for law enforcement and trade operations, which is the second largest budget among the DHS components. As the second largest revenue collector in the federal government, OF processed CBP's \$44.6 billion in annual custodial and entity revenue collections in FY 2016. OF consists of three core directorates: Budget, Financial Management and Operations, and the Investment Analysis Office.

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

Office of Training and Development (OTD): OTD leads all CBP training programs for the entire CBP workforce. OTD ensures that all training supports the CBP mission and strategic goals and prepares the Agency's workforce to meet the challenges of mission-critical operations. OTD establishes CBP training standards and policies; and develops, delivers, and evaluates resident based training.

Office of Facilities and Asset Management (OFAM):

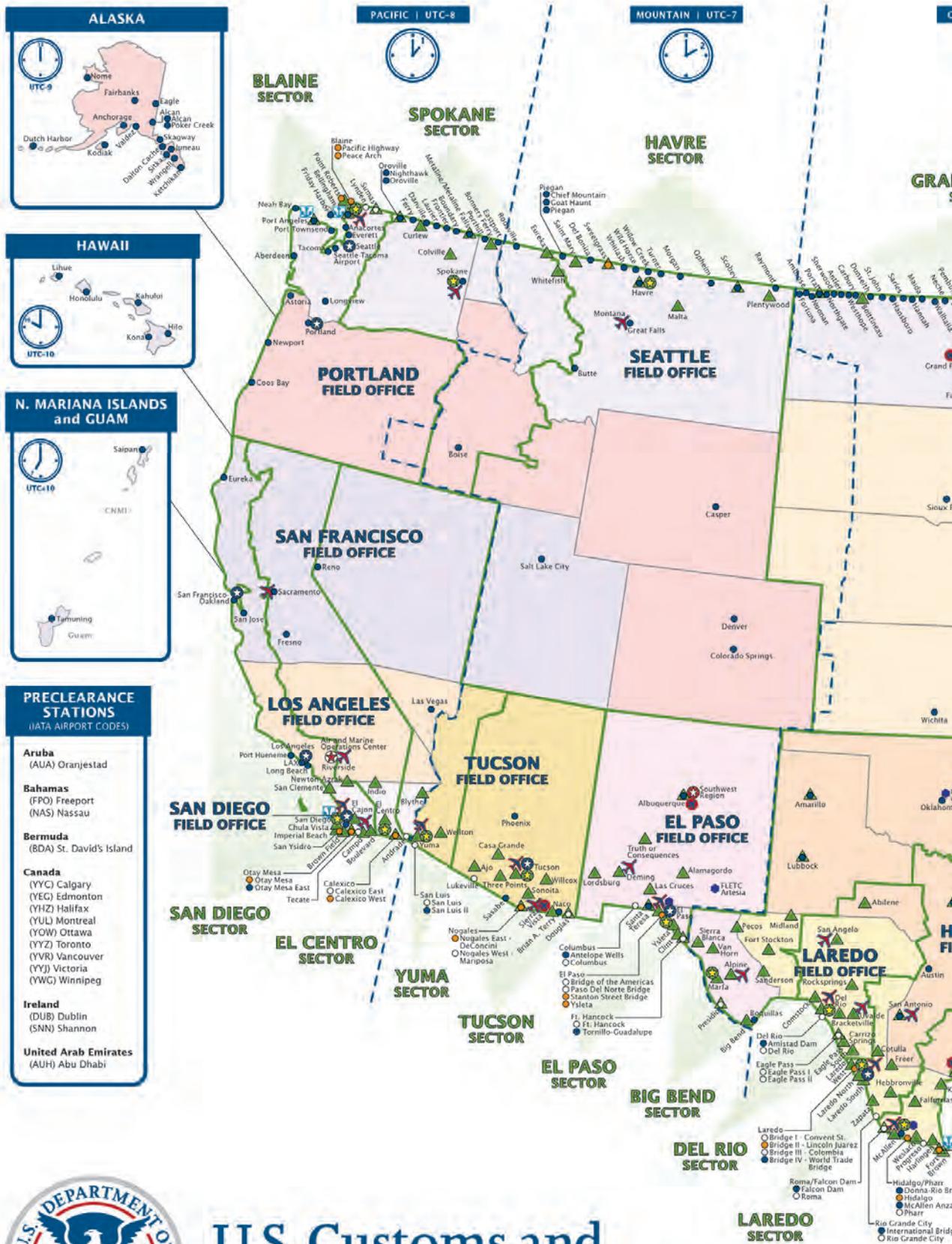
OFAM is CBP's property, asset, logistics, and sustainability-focused organization. Collectively, OFAM's programs house, equip, outfit, and support CBP's frontline and administrative personnel. OFAM's Facilities Management and Engineering (FM&E) Division manages CBP's large, complex, and diverse facilities and tactical infrastructure portfolio, which includes more than 5,890 buildings, structures, and towers (with approximately 27.8 million square feet of building space), over 4,682 acres of land in the United States, and 654 miles of primary pedestrian and vehicle fence along the SWB. The current plant replacement value (PRV) for CBP-owned facilities and tactical infrastructure is \$4.63 billion.

Office of Information and Technology (OIT):

OIT and the Chief Information Officer (CIO) provide information, infrastructure, communications, services, and technology solutions to secure the U.S. border, prevent the entry of terrorists and terrorist weapons, and facilitate legitimate trade and travel. OIT personnel manage infrastructure, networks, data, systems, and related resources, including all cybersecurity operations.

Office of Acquisition (OA) (formerly Office of Technology Innovation and Acquisition (OTIA)): OA focuses CBP's applied technology efforts on the Agency's mission and integrates them across CBP. OA strengthens CBP's expertise and effectiveness in acquisition and management of contractor-delivered products and services. The OA Assistant Commissioner also serves as CBP's Component Acquisition Executive, overseeing all CBP acquisition programs to ensure that they comply with DHS and CBP regulations and policies.





U.S. Customs and Border Protection



Revised 08/15

Key Initiatives: Trusted Traveler Programs (TTPs)

One of CBP’s key initiatives is the TTP. CBP operates four TTPs: Northern Border Crossing System (NEXUS), Secure Electronic Network for Travelers Rapid Inspection (SENTRI), Fast and Secure Trade (FAST), and Global Entry. These programs speed the processing of pre-approved, low-risk travelers, allowing CBP to focus on higher-risk travelers. Applicants apply online through CBP’s Global Online Enrollment System (GOES) and undergo a background check, biometrics collection, and an interview with a CBP officer. Participation in these fee-based programs is voluntary, and membership is good for five years. Once an applicant is enrolled in a program, CBP runs law enforcement checks every 24 hours to ensure the members maintain a low-risk status.

In FY 2016, CBP produced more than 1.5 million TTP cards. This is a production increase of 28.6 percent over FY 2015.

	<p>NEXUS is a cooperative effort between CBP and Canada Border Services Agency (CBSA). U.S. citizens and lawful permanent residents, and Canadian citizens and permanent residents are eligible for NEXUS. NEXUS members are interviewed by CBP and Canadian officers for expedited entry into the U.S. and Canada. NEXUS air applicants must have their iris scan collected by Canada to use the NEXUS kiosks for faster air entry into Canada.</p>
	<p>SENTRI provides expedited CBP processing from Mexico through dedicated commuter lanes for vehicles and pedestrians. SENTRI has no citizenship requirement and is open to anyone. Members use their Radio Frequency Identification (RFID)-enabled card for identification and to validate their status upon arrival at a U.S. port of entry.</p>
	<p>FAST is a commercial clearance program for known low-risk shipments from Canada and Mexico that expedites processing for commercial carriers who have completed background checks and meet eligibility requirements. FAST vehicle lanes process cargo at land border ports of entry. Participation in FAST requires that every link in the supply chain, from manufacturer to carrier to driver to importer, has Customs-Trade Partnership Against Terrorism (C-TPAT) certification. FAST dedicated lanes support trans-border shipments, reducing inspections and border delays. FAST makes front-of-the-line CBP processing a priority.</p>
	<p>GLOBAL ENTRY speeds the clearance of pre-approved low-risk air travelers into the United States. Global Entry members use automated kiosks at designated airports to bypass the regular passport control queues. While Global Entry’s goal is to speed travelers through the process, members may still be selected for further examination. U.S. citizens and lawful permanent residents, and citizens of Germany, Mexico, the Netherlands, Panama, the United Kingdom, Singapore and South Korea may apply for Global Entry. CBP is operating pilot programs with Israel, Qatar, and Saudi Arabia allowing limited numbers of their citizens to participate. CBP has also signed joint statements with Japan, India, Colombia, Peru, Switzerland, Taiwan, and the United Arab Emirates to expand Global Entry. All NEXUS program members as well as U.S. citizens and U.S. lawful permanent residents enrolled in SENTRI may also use Global Entry kiosks.</p>

Performance Goals, Objectives, and Results

CBP's Strategic Goals

Four strategic goals guide CBP's actions to achieve its mission. These have been published in the CBP Vision and Strategy 2020 — the U.S. Customs and Border Protection Strategic Plan. It outlines four foundational strategic goals that enhance CBP's foresight and agility to meet the increasingly global and complex challenges it faces. The detailed objectives outlined within each strategic goal describe the Agency's desired outcomes and effects that will ensure its vision to keep the American people safe, secure, and prosperous.

The table below lists the CBP strategic goals and objectives that guided its operations in FY 2016.

Mission: To safeguard America's borders, thereby protecting the public from dangerous people and materials while enhancing the Nation's global economic competitiveness by enabling legitimate trade and travel.
Goal One - Counter Terrorism and Transnational Crime
Objective A – Understand the threat environment
Objective B – Enhance procedures and partnerships that will facilitate interagency and international border enforcement coordination
Objective C – Strengthen global supply chain security
Goal Two - Advance Comprehensive Border Security and Management
Objective A – Increase situational awareness of the air, land and maritime borders
Objective B – Detect, interdict and disrupt illegal cross-border activities
Objective C – Strengthen comprehensive trade enforcement
Objective D – Strengthen processes to conduct outbound enforcement and interdiction of travelers and cargo
Objective E – Advance a comprehensive, predictive targeting strategy to identify threats as early as possible
Goal Three - Enhance U.S. Economic Competitiveness by Enabling Lawful Trade and Travel
Objective A – Reduce costs for the U.S. Government and the trade and travel communities by streamlining processes in collaboration with public and private sector partners
Objective B – Promote harmonization throughout ports of entry and other U.S. Government agencies
Objective C – Expand risk-segmentation through advanced technology to enable low-risk trade and travel
Goal Four - Promote Organizational Integration, Innovation, and Agility
Objective A – Mature CBP's strategic resource management framework
Objective B – Optimize CBP's organizational structure to ensure agile and efficient operations
Objective C – Strengthen CBP's culture of unwavering integrity and professional growth
Objective D – Advance CBP mission effectiveness through transformative technologies and innovative business practices

CBP uses various mission strategies (i.e., programs and initiatives) within each objective to achieve its strategic goals, and ultimately, its mission. Strategies include programs, technologies, and partnerships, each with specific performance measures. CBP develops performance measures in response to DHS, the Government Accountability Office (GAO), and the Office of Inspector General (OIG) recommendations, as well as internal CBP management requirements. Performance measures results are reported to OMB and DHS.

Future Years Homeland Security Program (FYHSP)

The FYHSP outlines the five-year plan for achieving the long-term performance goals for specific DHS programs. Each strategy aligns with a DHS department-level strategic objective, as outlined in the DHS Strategic Plan 2014-2018, and with measures to demonstrate the strategy's progress in meeting that objective. The FYHSP captures this information and records performance measures, targets, and annual milestones which is presented to Congress each year. The FYHSP requires CBP offices to report their performance results within CBP's four core mission areas:

Securing America's Borders: The Securing America's Borders program is charged with securing America's southwest, northern, and certain coastal borders. Through the coordinated use of operational capabilities and assets of USBP and AMO, CBP prevents terrorists and terrorist weapons, illegal aliens, smugglers, drugs, and other contraband from moving across the border into the United States.

Securing and Expediting Trade: The Securing and Expediting Trade program encompasses a multi-layered system of people, technology, intelligence, risk information, targeting, international cooperation and expanded shipper vetting that provides CBP greater flexibility and capacity in shifting functions away from the physical border, allowing CBP to better intercept potential threats before they can cause harm while expediting legal trade/commerce.

Securing and Expediting Travel: The Securing and Expediting Travel program encompasses a multi-layered system of people, technology, intelligence, risk information, targeting, international cooperation, and expanded traveler vetting that provides CBP greater flexibility in shifting functions away from the physical border, allowing CBP to intercept potential threats before they can cause harm while expediting legal travel.

Intelligence and Targeting: The Intelligence and Targeting program supports a flexible enforcement capability that anticipates and detects border violations threatening our security, economy, and public safety. Serving as a powerful partnership that connects the law enforcement and intelligence communities, the enterprise develops, provides, and coordinates capabilities to support the Agency's primary mission to secure our borders, and works toward its vision to become a responsive enterprise enabling CBP to serve as a premier intelligence-driven law enforcement agency. The enterprise promotes four essential outcomes: (1) detect threats away from our borders; (2) identify travelers and shipments according to the threat they pose; (3) integrate and coordinate our intelligence and targeting capabilities; and (4) establish stronger partnerships with domestic and foreign partners.



CBP Strategic Goals Aligned to the FYHSP Core Mission Areas

CBP reports performance results within the FYHSP intranet-accessible system that include:

- Performance measures of major programs organized by component or mission
- Targets and actual results for each measure
- Trends of performance data from three previous years and the current year
- Alignment of measures to the DHS Quadrennial Homeland Security Review (QHSR) mission, goals, and objectives

The figure below describes how CBP aligns its performance measures to the CBP Vision and Strategy 2020, CBP's FYHSP four mission areas, and DHS's Mission 2 – Secure and Manage Our Borders.

CBP Performance Measure	CBP Vision and Strategy 2020	CBP FYHSP Mission Area	DHS Mission
1. Percent of inbound cargo identified by CBP as potentially high-risk that is assessed or scanned prior to departure or at arrival at a U.S. port of entry	Goal 1: Counter Terrorism and Transnational Crime Objective C: Strengthen Global Supply Chain Security	Mission Area 4: Intelligence and Targeting	Mission 2: Secure and Manage Our Borders
2. Percent of detected conventional aircraft incursions resolved along all borders of the United States	Goal 2: Advance Comprehensive Border Security and Management Objective A: Increase Situational Awareness of the Air, Land, and Maritime Borders	Mission Area 1: Securing America's Borders	
3. Percent of people apprehended multiple times along the Southwest border	Goal 2: Advance Comprehensive Border Security and Management Objective B: Detect, Interdict, and Disrupt Illegal Cross-Border Activities	Mission Area 1: Securing America's Borders	
4. Rate of interdiction effectiveness along the Southwest border between ports of entry	Goal 2: Advance Comprehensive Border Security and Management Objective B: Detect, Interdict, and Disrupt Illegal Cross-Border Activities	Mission Area 1: Securing America's Borders	
5. Amount of smuggled outbound currency seized at the ports of entry	Goal 2: Advance Comprehensive Border Security and Management Objective D: Strengthen Processes to Conduct Outbound Enforcement and Interdiction of Travelers and Cargo	Mission Area 3: Securing and Expediting Travel	

CBP Performance Measure	CBP Vision and Strategy 2020	CBP FYHSP Mission Area	DHS Mission
6. Number of smuggled outbound weapons seized at the ports of entry	Goal 2: Advance Comprehensive Border Security and Management Objective D: Strengthen Processes to Conduct Outbound Enforcement and Interdiction of Travelers and Cargo	Mission Area 3: Securing and Expediting Travel	Mission 2: Secure and Manage Our Borders
7. Percent of import revenue successfully collected	Goal 3: Enhance U.S Economic Competitiveness by Enabling Lawful Trade and Travel Objective A: Reduce Costs for the U.S. Government and the Trade and Travel Communities by Streamlining Processes in Collaboration with Public and Private Sector Partners	Mission Area 2: Securing and Expediting Trade	
8. Percent of imports compliant with applicable U.S. trade laws	Goal 3: Enhance U.S Economic Competitiveness by Enabling Lawful Trade and Travel Objective A: Reduce Costs for the U.S. Government and the Trade and Travel Communities by Streamlining Processes in Collaboration with Public and Private Sector Partners	Mission Area 2: Securing and Expediting Trade	
9. Percent of cargo by value imported to the U.S. by participants in CBP trade partnership programs	Goal 3: Enhance U.S Economic Competitiveness by Enabling Lawful Trade and Travel Objective C: Expand Risk-Segmentation Through Advanced Technology to Enable Low-Risk Trade and Travel	Mission Area 2: Securing and Expediting Trade	

CBP supports two of DHS’s missions – Mission 2, Secure and Manage our Borders and Mission 3, Enforce and Administer Our Immigration Laws. However, CBP only tracks performance measures against DHS’s Mission 2. CBP activities aligned to DHS’s Mission 3 include detention and removal; the immigration part of traveler processing; and processing immigration forms. In FY 2016, CBP’s net cost of operations toward DHS’s Mission 2 and DHS’s Mission 3 were \$12.2 billion and \$1.7 billion, respectively.

Measuring performance has many benefits. First, it highlights areas for improvement, which leads to more informed decision-making in establishing priorities and ensuring that resources are allocated to best support mission execution. Second, performance measurements can highlight opportunities to increase efficiency and efficacy to improve return on investment for resource allocation decisions. Finally, performance measures provide critical information to external stakeholders, which leads to improved oversight and a more accurate assessment of organizational effectiveness.

CBP’s Performance Measures as Aligned to CBP’s Strategic Goals and Objectives.

		Prior Year Results			FY 2016		
Performance Measures		FY 2013	FY 2014	FY 2015	Targets	Results	Target Met
		Goal 1: Counter Terrorism and Transnational Crime	Objective A – Understand the threat environment				
No performance measures	–		–	–	–	–	–
Objective B – Enhance procedures and partnerships that will facilitate interagency and international border enforcement coordination							
No performance measures	–		–	–	–	–	–
Objective C – Strengthen global supply chain security							
1. Percent of inbound cargo identified by CBP as potentially high-risk that is assessed or scanned prior to departure or at arrival at a U.S. port of entry	98.00%		99.22%	99.76%	100%	99.28%	Not met
		Prior Year Results			FY 2016		
Performance Measures		FY 2013	FY 2014	FY 2015	Targets	Results	Target Met
		Goal 2: Advance Comprehensive Border Security and Management	Objective A – Increase situational awareness of the air, land and maritime borders				
2. Percent of detected conventional aircraft incursions resolved along all borders of the U.S.	99.3%		98.8%	99.3%	100%	99.7%	Not met
Objective B – Detect, interdict and disrupt illegal cross-border activities							
3. Percent of people apprehended multiple times along the Southwest border	16%		14%	14%	<=17%	12.3%	Met
4. Rate of interdiction effectiveness along the Southwest Border between ports of entry	–		79.28%	81.01%	81%	82.67%	Met
Objective C – Strengthen comprehensive trade enforcement							
No performance measures	–		–	–	–	–	–
Objective D – Strengthen processes to conduct outbound enforcement and interdiction of travelers and cargo							
5. Amount of smuggled outbound currency seized at the ports of entry (in millions)	\$36.9		\$37.7	\$37.6	\$30	\$28.9	Not met
6. Number of smuggled outbound weapons seized at the ports of entry	731		411	505	400	661	Met
Objective E – Advance a comprehensive, predictive targeting strategy to identify threats as early as possible							
No performance measures	–	–	–	–	–	–	

	Prior Year Results			FY 2016			
	FY 2013	FY 2014	FY 2015	Targets	Results	Target Met	
Goal 3: Enhance U.S. Economic Competitiveness by Enabling Lawful Trade and Travel	Performance Measures						
	Objective A – Reduce costs for the U.S. Government and the trade and travel communities by streamlining processes in collaboration with public and private sector partners						
	7. Percent of import revenue successfully collected	98.73%	99.56%	98.61%	100%	99.06%	Not met
	8. Percent of imports compliant with applicable U.S. trade laws	97.66%	97.99%	98.89%	97.5%	99.18%	Met
	Objective B – Promote harmonization throughout ports of entry and other U.S. government agencies						
	No performance measures	–	–	–	–	–	–
	Objective C – Expand risk-segmentation through advanced technology to enable low-risk trade and travel						
9. Percent of cargo by value imported to the U.S. by participants in CBP trade partnership programs	55.2%	53.9%	52.2%	53.0%	53.0%	Met	



Financial Management

Financial 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 to accurately identify amounts owed to CBP and efficiently and effectively collect, report, and account for revenue.

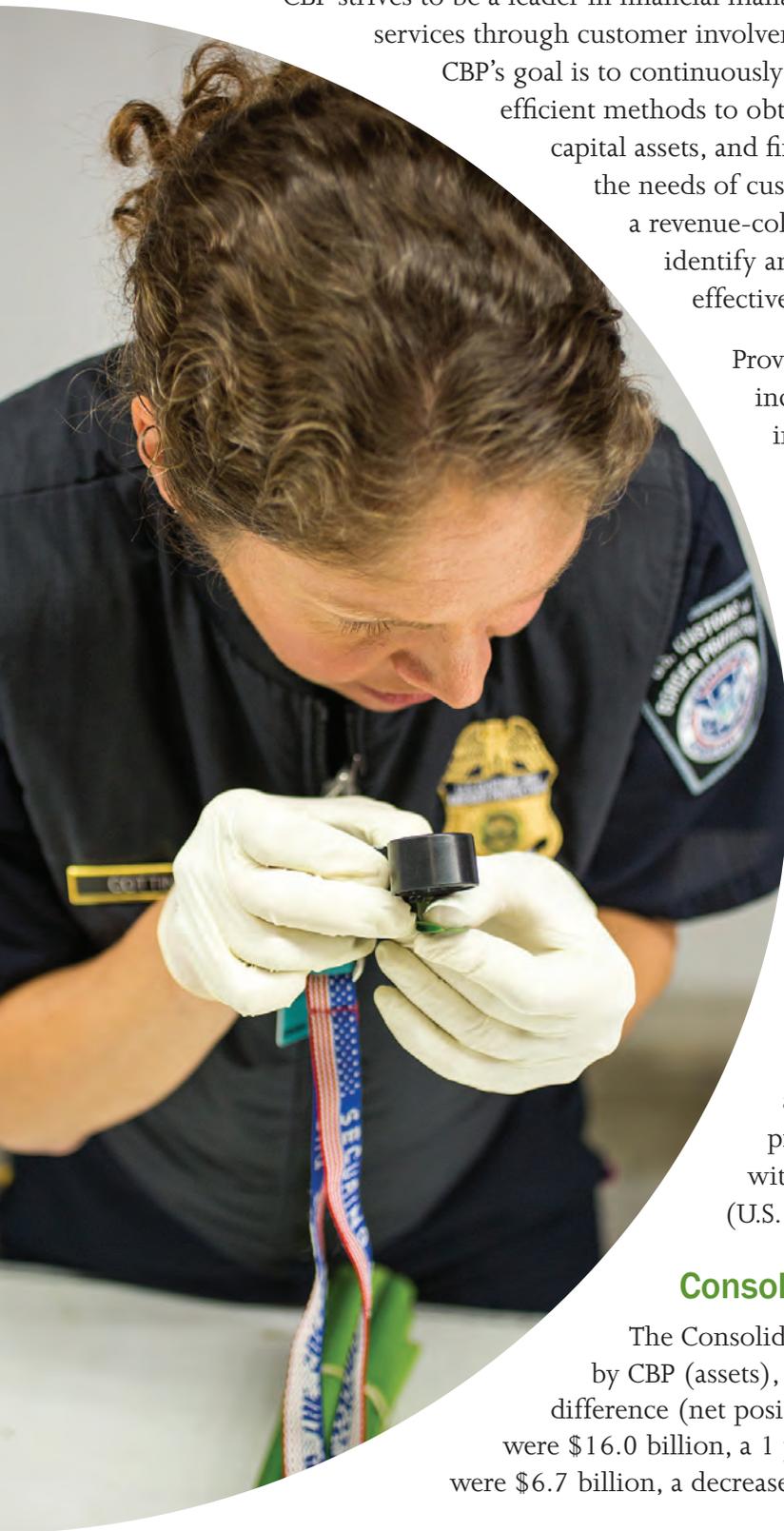
Providing top-quality financial management services includes translating workloads and requirements into budget requests for needed resources, allocating and distributing funds after resources are made available, acquiring and distributing goods and services used to accomplish the CBP mission, managing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

Overview of the Financial Statements

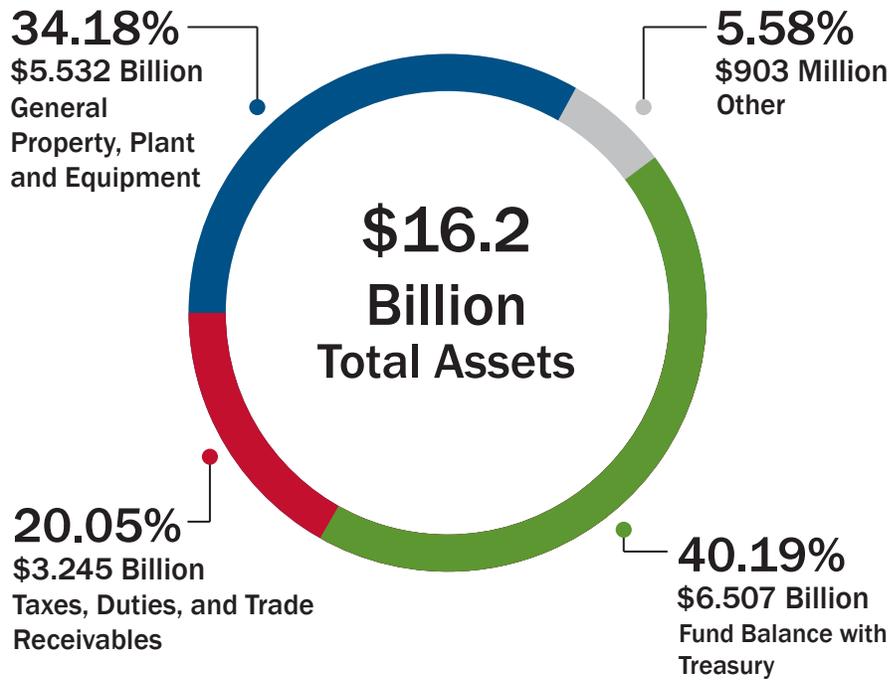
The financial statements and footnotes appear in the "Financial Section" of this report. The financial statements have been audited by the independent auditor, KPMG LLP, engaged by the DHS OIG. KPMG LLP issued an opinion that provides reasonable assurance that the financial statements are fairly presented in all material respects in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP).

Consolidated Balance Sheet

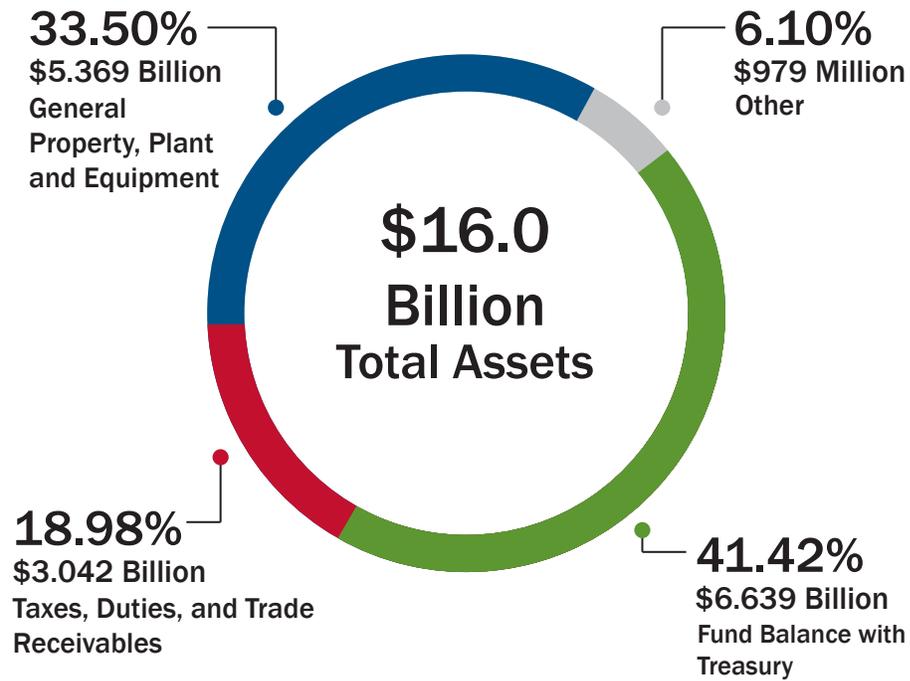
The Consolidated Balance Sheet presents the property owned by CBP (assets), amounts owed by CBP (liabilities), and the difference (net position). As of September 30, 2016, total assets were \$16.0 billion, a 1 percent decrease from FY 2015. Total liabilities were \$6.7 billion, a decrease of 1 percent over FY 2015.



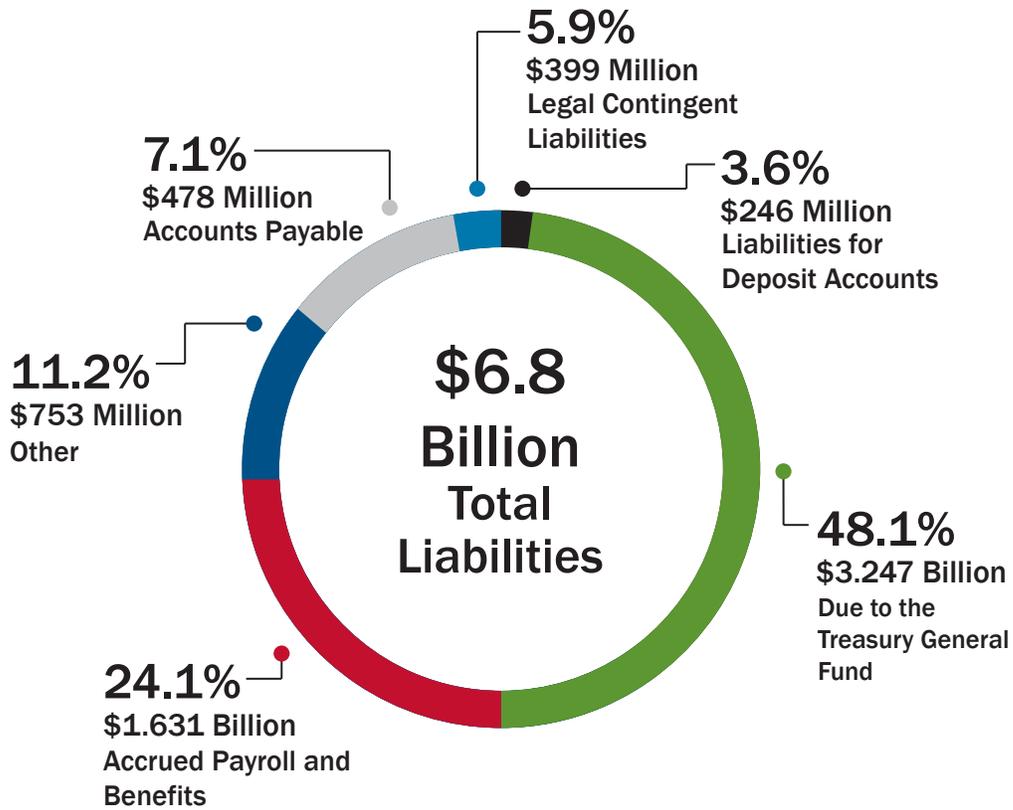
FY 2015



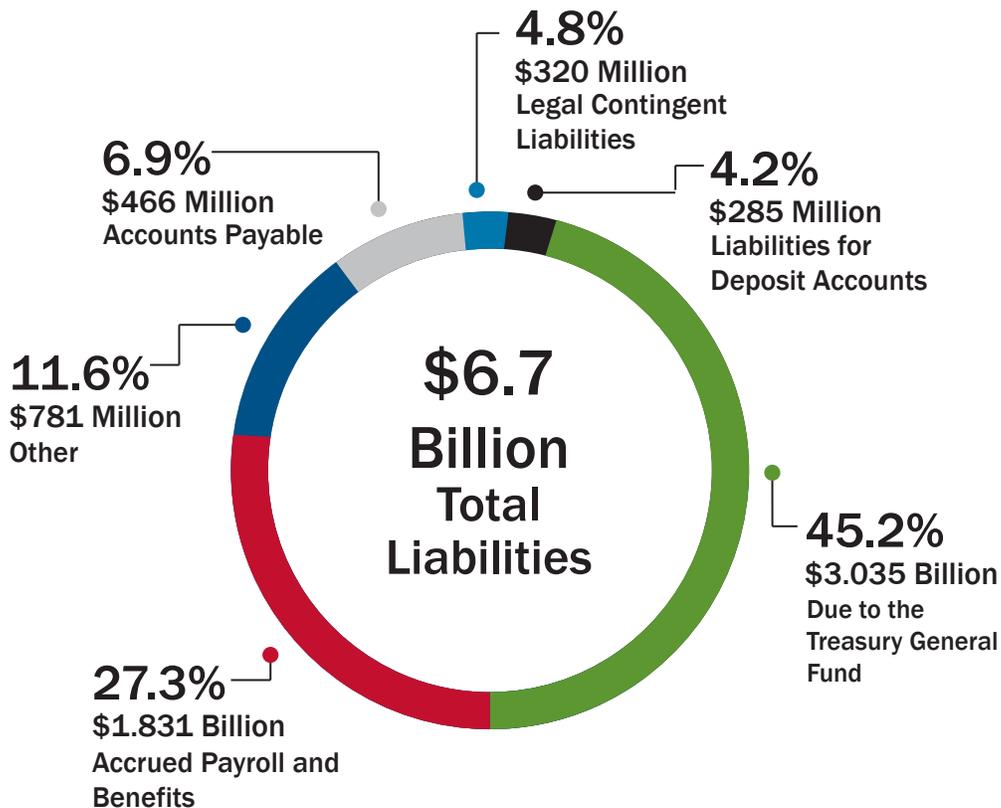
FY 2016



FY 2015



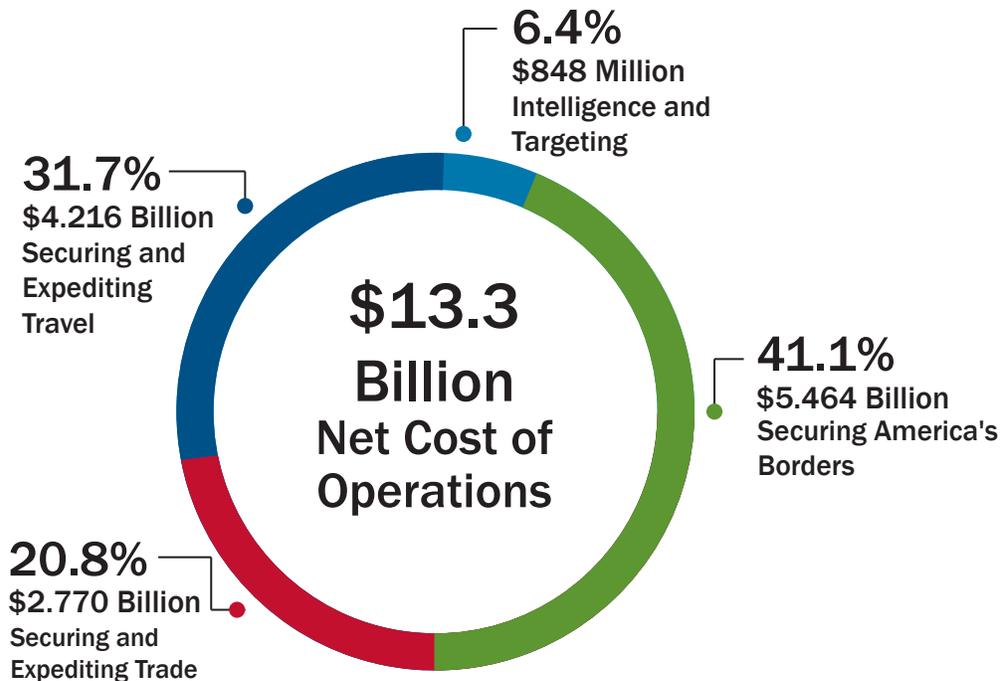
FY 2016



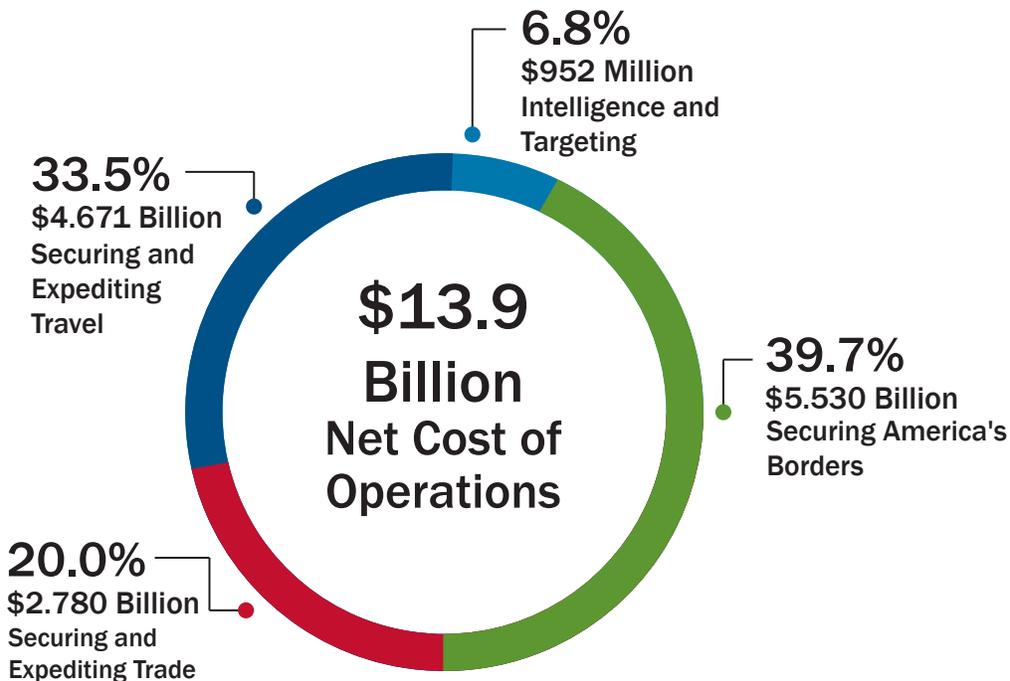
Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost presents the net cost of the major CBP programs as they relate to the goals of the DHS 2014-2018 Strategic Plan. The gross cost less any offsetting revenue for each program equals net cost of operations. Net cost of operations was \$13.9 billion.

FY 2015



FY 2016



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 63 percent of CBP’s total financing sources. CBP collected and retained \$4.2 billion of non-exchange revenue, amounting to 30 percent of total financing sources, which was used to fund CBP operations.

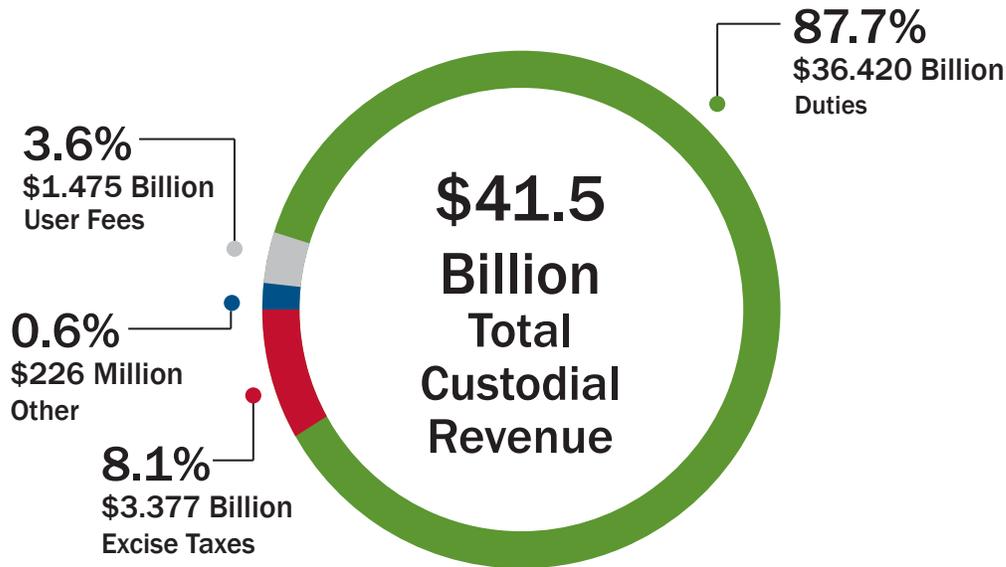
Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources illustrates how budgetary resources were made available, as well as their status at the end of FY 2016. CBP had \$19.3 billion in budgetary resources, of which \$1.5 billion were unobligated. CBP incurred obligations of \$17.8 billion and recorded \$17.0 billion in gross outlays by the end of FY 2016.

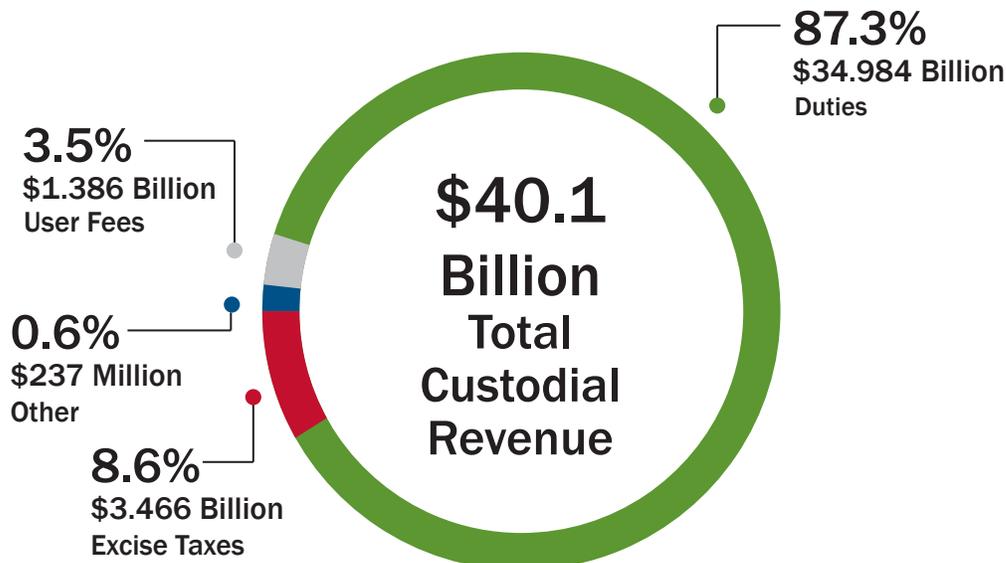
Consolidated Statement of Custodial Activity

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 2016 was \$40.1 billion.

FY 2015



FY 2016



Management Assurances

Overview

CBP management is responsible for establishing and maintaining effective internal controls to support DHS in providing reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA), as prescribed by GAO Standards for Internal Control in the Federal Government, known as the Green Book, are met. CBP activities also support DHS compliance with the DHS Financial Accountability Act. CBP has evaluated its management controls, internal controls over financial reporting, and compliance with Federal financial systems standards. Management has included its assessment of internal control over financial reporting in the CFO message. In performing the evaluation, CBP considered results from external audit reports, independent reviews, and internal assessments conducted by CBP management.

In FY 2014, the GAO revised the Green Book effective beginning FY 2016 and for the FMFIA reports covering that year. The Green Book provides managers the criteria for an effective internal control system, organized around internal control components, principles, and attributes.



FMFIA

In accordance with FMFIA and OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, and in support of DHS's compliance requirements, CBP provides reasonable assurance that internal controls are effective and efficient to support program operations in compliance with applicable laws and regulations of the objectives of Section 2 of the FMFIA (Operations), and that financial systems conform to financial system objectives of FMFIA Section 4 (Financial Systems), except for the non-compliances noted below.

FMFIA Section 2 (Operations)

- **Drawback Payments:** CBP's Automated Commercial System (ACS) has inherent limitations in detecting and preventing excessive drawback claim payments. Legislation passed in FY 2016 and the planned system enhancements needed to implement the legislative changes are expected to fully remediate these issues by February 2019, which is the deadline for all drawback claims to follow the newly enacted provisions. The Trade Facilitation and Trade Enforcement Act (TFTEA) of 2015, signed into law on February 24, 2016, provides significant enhancements to the drawback laws under 19 U.S.C. § 1313. Planned Automated Commercial Environment (ACE) deployments will further operationalize the provisions in the TFTEA and help CBP address longstanding weaknesses related to drawback payments while streamlining drawback processes for both CBP and the trade. It will also revise document retention requirements. Until the legislative changes and system improvements are realized, CBP expects drawback controls to remain a reportable condition. CBP will continue executing an enhanced drawback compliance measurement program launched in May 2016, which emphasizes data integrity, accuracy, and timeliness to improve the validity of risk-based decisions to mitigate the risk of excessive drawback claim payments.





- **Contract Management Oversight:** The FY 2014 cybersecurity intrusion into systems used by background investigation companies under contract with both DHS and CBP highlighted the risk associated with the use of systems not connected to the DHS network. CBP took several actions in FY 2015 and FY 2016 in response to this risk, including creating new contract language to enhance the security of contracts that involve sensitive information. Contract clauses to safeguard and maintain system security requirements are included as CBP awards new contracts, and policies and procedures are in place to ensure contracts contain the applicable system security requirements. The CBP OA and OIT will continue to work together to ensure effective monitoring of contractor computer system safeguards and timely response when systems have been compromised.
- **Financial Reporting:** CBP's review processes did not identify or follow all the controls needed to completely mitigate the risks related to the year-end financial reporting. As a result, CBP did not discover a small number of posting errors related to financial reporting. Despite these control deficiencies, CBP was able to adequately support its FY 2016 account balances. Remediation efforts will include improving internal controls around year-end cutoff procedures and subsequent event analysis, as well as reinforcing existing review procedures. In addition, CBP will attract and deploy additional skilled resources and align them to financial reporting.

Note: The FY 2015 Internal Control Assurance Statement reportable condition on Single Transaction Bonds was resolved and is not included in the FY 2016 Internal Control Assurance Statement.

Potential Antideficiency Act (ADA) Violations

As of the end of fiscal year 2016, CBP had the following potential ADA violations in various stages of review by CBP or DHS:

1. Potential violation related to overtime earnings in excess of the annual overtime pay cap established by the FY 2014 and FY 2015 DHS Appropriations Acts.
2. Potential violation related to the award of a purchase order in FY 2015, whose value exceeded \$1 million inclusive of the option period, without the appropriate Congressional notification as required by the 2015 DHS Appropriations Act.

FMFIA Section 4 (Financial Systems)

- **Core Financial Systems:** CBP's ACS does not maintain trade receivable activity at the transaction level. This issue will be addressed by an ongoing initiative to restructure or replace ACS with a revenue management system that enables CBP to collect, deposit, and report revenue. The systems maintaining CBP's aircraft and marine spare parts inventories do not report addition and usage activity at the transaction level. CBP continues to make progress in planning and preparing for a replacement Integrated Logistics Support System.
- **Information Technology General Controls:** The DHS OIG continues to identify information technology (IT) general and application control weaknesses at CBP. Weaknesses were cited in CBP's accounting system, Systems, Applications and Products (SAP), and mainframe system environments, including weaknesses in access and separation of duties processes, and audit logging and monitoring. Of these, access management represents the greatest risk to reliance on CBP's automated IT controls. CBP has implemented remediation strategies to address issues across the portfolio of CFO-designated systems, including implementing after hours inspections, enhanced tools, and revised procedures for separating employees. CBP also implemented a tool to assist with future user activity monitoring and audit logs, which will be applied to other systems. CBP has made significant progress establishing an IT management controls program and enhancing assessments over CFO-designated systems in FY 2016, which will continue in subsequent years. CBP will maintain a high degree of collaboration among OT (ACE Business Office), OFO, and OF to apply IT internal control considerations and improvements to planned system implementations in FY 2017, including ACE core functionality. More broadly, CBP has also made progress addressing cybersecurity vulnerabilities to prevent cyber attacks against CBP. CBP will continue efforts in FY 2017 to strengthen cybersecurity and address remaining vulnerabilities.
- **Information and Technology Infrastructure:** Replacement of aging and obsolete infrastructure has been addressed to remediate the most critical IT hardware in the CBP network. Efforts will continue to update necessary infrastructure and aging technology in FY 2017. In addition, CBP conducted an infrastructure study and has identified remediation efforts to address results of the study as funding is available.



DHS Financial Accountability Act

As outlined by Departmental guidance, the scope of CBP's assessment of internal control over financial reporting included performing tests of operational effectiveness throughout FY 2016 and verification and validation of corrective action effectiveness as of September 30, 2016.

In support of the Department's goal of obtaining an unqualified audit opinion on its internal control over financial reporting, CBP significantly expanded the scope of its tests of operational effectiveness from two business process areas in FY 2015 to nine in FY 2016. Tests of operational effectiveness and verification and validation procedures generally resulted in some control deficiencies. These control deficiencies do not rise to the level of a reportable condition or material weakness, with the exception of the reportable condition related to Financial Reporting described in FMFIA Section 2 above, and the reportable condition related to Revenue and Receivable Management, where testing results identified control deficiencies relating to liquidations, entry summary reporting, bonded warehouse compliance reviews, in-bond compliance, and daily collections.

FFMIA

CBP's financial management systems contribute to DHS's substantial non-compliance with FFMIA, specifically non-compliance with Federal systems requirements and non-compliance with the U.S. Standard General Ledger at the transaction level. Details of the non-compliance, as well as planned remediation, are discussed above as part of FFMIA.

Systems and Controls

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. Internal management controls are in place 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: CBP's financial systems strategy is to align its programs' performance through the Planning, Programming, Budgeting, and Accountability (PPBA) business structure. The PPBA process aligns implementation and resource allocation, and assesses the effectiveness of meeting mission objectives. CBP's main financial system, SAP, is an Enterprise Resource Planning (ERP) solution that integrates budget formulation, budget execution, acquisition through the disposal of assets, requisition through payment, billing to collection of receivables, and business intelligence. CBP uses ACE and ACS systems to process trade and revenue. ACE, when fully implemented, will provide threat awareness, prevention, and protection through a centralized "single window" to process legitimate transactions quickly, focusing resources on suspect shipments. In FY 2016, CBP incorporated new ACE features to process cargo and identify shipments that may require additional scrutiny. ACS currently provides revenue and accounts receivable information; however, as previously mentioned, it is non-compliant with FFMIA. In FY 2016, CBP continued planning for a new Revenue Modernization System to eventually replace ACS to improve and simplify the revenue collection process through CBP.

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 U.S. 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.



Performance Section



This section provides information on CBP's progress in achieving performance goals and objectives.

Performance Summary

The performance data presented in this report is in accordance with certain provisions of OMB guidance. The data integrity discussion in the “Systems and Controls” section describes CBP’s commitment to providing quality and timely performance information. CBP managers use this data to demonstrate accountability and improve the quality of program results.

The performance measures are used to measure progress in achieving the goals outlined in the CBP Vision and Strategy 2020 and the DHS Strategic Plan 2014-2018, which were developed in response to the 2014 QHSR and the DHS FYHSP. The measurement data is collected through various systems and methods and entered into the FYHSP System to be tracked and compiled in support of management decision-making and year-end reporting. In this PAR, CBP has reported on the nine strategic performance measures which align to the DHS major mission established by the DHS Strategic Plan 2014-2018 and that support DHS’s GPRAMA compliance requirements.

In FY 2016, CBP met five of the nine (55.6 percent) strategic performance measure targets. Of the four targets CBP did not meet, three of those measures have targets of 100 percent, which are unlikely to be met. The measures are organized by strategic goal and objective. CBP has four overarching strategic goals:

1. Counter Terrorism and Transnational Crime
2. Advance Comprehensive Border Security and Management
3. Enhance U.S. Economic Competitiveness by Enabling Lawful Trade and Travel
4. Promote Organizational Integration, Innovation, and Agility

Individual Performance Measure Results

This section highlights some key CBP strategies and programs we used to accomplish our four strategic goals in FY 2016, including select success stories and interesting facts. This section also describes the FY 2016 target for each performance measure, CBP’s FY 2016 performance results, and, when available, four years of historical trend data.

CBP has prepared line graphs for each performance measure to show performance trends.

Although in some cases CBP achieved a result significantly better than the target in FY 2015, CBP did not set the new FY 2016 target to reflect FY 2015’s result. Annual performance is subject to greater variability than long-term performance. Over time, short-term trends tend to balance out and provide a more accurate picture of CBP’s long-term performance. Targets are determined to measure the performance toward long-term strategic goals.





Goal 1: Counter Terrorism and Transnational Crime

Support the President's National Security Strategy and counter-terrorism efforts, promote the national elements of power (to include: diplomatic, information, economic, financial, intelligence, and law enforcement), contribute to and lead a whole of government approach to national security, and promote the safety of the American people.

Objectives to Accomplish Goal One – Counter Terrorism and Transnational Crime

- Objective A – Understand the threat environment
- Objective B – Enhance procedures and partnerships that will facilitate interagency and international border enforcement coordination
- Objective C – Strengthen global supply chain security

Objective A: Understand the Threat Environment

CBP strengthens partnerships with federal, state, local, tribal, territorial, and international stakeholders to enhance intelligence and information sharing. This is accomplished, in part, by developing common intelligence pictures – common understandings of terrorists and criminal threats including their tactics, techniques, and procedures; their capabilities and vulnerabilities; and indicators of their potential courses of action.

Central to this objective is the CBP Law Enforcement Intelligence Enterprise, a powerful border security partnership that connects law enforcement and intelligence communities for an enhanced intelligence and targeting strategy to predict threats and better understand the threat environment. This enterprise detects threats beyond our borders, integrates and coordinates intelligence and law enforcement capabilities, and establishes stronger border-centric partnerships to respond to illicit activities and TCOs.

Strategies to Understand the Threat Environment

National Border Geospatial Intelligence Strategy (NBGIS): The USBP uses a variety of Geospatial Intelligence (GEOINT) products, analytical techniques, and collection strategies to gather information and intelligence on the border. Each mile of border is designated as either Deployment Density or GEOINT. NBGIS leverages partnerships and expertise from across the DoD, U.S. intelligence community, and law enforcement community in order to maximize effectiveness and to fulfill a whole of government approach to border security.



National Targeting Center (NTC): Managed by OFO, NTC prevents dangerous and unlawful travelers and cargo from entering and exiting the country by reviewing and segmenting them across inbound and outbound modes of transportation. NTC conducts various Passenger Targeting and Cargo Targeting Operations as described below:

- **Passenger Targeting Operations:** OFO conducts passenger targeting operations to vet inbound and outbound passengers and crews from commercial airlines, cruise ships, and cargo vessels to identify potential high-risk individuals such as terrorists, disingenuous travelers, and other inadmissible travelers. OFO examines advance passenger data and uses automated targeting and risk-informed approaches to vet, segment, and facilitate the movement of travelers. OFO uses data processing systems including the Automated Targeting System (ATS) to vet passenger manifests and related information prior to U.S. arrival. Passenger Targeting Operations include:
 - **Air and Marine Operations Center (AMOC) Support.** The NTC personnel working at the AMOC identify and vet non-commercial aircraft crossing the border, conduct research, and utilize data to proactively target and disrupt drug trafficking, money laundering, weapons smuggling, and fugitives.
 - **Caribbean Community (CARICOM).** CBP and the CARICOM Joint Regional Communications Centre (JRCC) targets and analyzes Advance Passenger Information System (APIS) data from aircraft and vessels traveling within the CARICOM member nations.
 - **Electronic System for Travel Authorizations (ESTA).** NTC vets all ESTA applications for prospective travelers seeking to travel to the U.S. under the Visa Waiver Program (VWP).
 - **International Targeting Center (ITC).** ITC protects against terrorism and criminal activities by facilitating a cohesive relationship between ITC member nations.
 - **Biometrics.** NTC serves as the CBP office of primary responsibility for all DHS Automated Biometric Identification System (IDENT) users in relation to encounters with individuals listed in DoD biometric watch list records.
 - **Pre-Adjudicative Threat Recognition and Intelligence Operations Team (PATRIOT).** NTC collaborates in an interagency coordination effort to conduct advance visa application vetting and enhance visa security among DHS, CBP, ICE, and the U.S. Department of State (DOS).
 - **Terrorist Screening Database.** In collaboration with the National Counterterrorism Center (NCTC) and the Federal Bureau of Investigation (FBI) Terrorist Screening Center (TSC), NTC improves the accuracy and integrity of the database by augmenting nominations and watch list records with data contained within CBP passenger and cargo systems.
 - **Visa Vetting.** In coordination with the DOS, NTC provides continuous vetting of existing visas against law enforcement databases and any new derogatory information.



**SUCCESS
STORY**

In April 2016, CBP signed two ATS-Global (ATS-G) Memorandums of Understanding (MOUs) with Peru. These agreements serve to assist Peru in implementing risk-based targeting systems and processes for international travelers while receiving information on international air travelers arriving and departing Peru, lending a significant boost towards the interception of high-risk travelers in the Eastern Pacific.

- **Cargo Targeting Operations (CTO):** CTO conducts shipment and conveyance targeting operations to vet inbound and outbound shipments and conveyances from all modes of transportation to identify potential high-risk shipments, individuals such as terrorists, disingenuous conveyances, and other high-risk activities that threaten U.S. interests. CTO uses data processing systems including the ATS to vet shipment, conveyance, passenger manifests, and entry-related information prior to U.S. arrival.
 - **Air Cargo Advance Screening.** This is a collaborative effort between CBP, the Transportation Security Administration (TSA), and air cargo carriers to assess inbound air cargo before loading onboard aircraft.
 - **Container Security Initiative (CSI) Targeting.** This initiative addresses the threat to border security and global trade posed from maritime containers. Teams of CBP Officers (CBPOs) at foreign seaports work with their host government counterparts to target and examine high-risk cargo before it is placed on vessels bound for the United States.
 - **Outbound Targeting.** The Outbound Targeting Unit detects, deters, disrupts, and dismantles counter-proliferation, terrorists, and TCOs based on exports from the United States.
 - **Narcotics Targeting.** The Narcotics Targeting Unit detects, deters, disrupts, and dismantles narcotic facilitation and narcotic criminal networks. The unit is a collaborative effort between CBP, the U.S. Drug Enforcement Administration (DEA), Homeland Security Investigations (HSI), Joint Interagency Task Force-West and South (JIATF West/South), the Office of National Drug Control Policy (ONDCP), and CBP's foreign partners to detect and interdict illicit narcotics, precursor chemicals, and synthetics.
 - **International Cargo Targeting Fellowship Program.** This program is a collaborative effort with international partners to identify, prevent, deter, disrupt, and manage risks in the cargo environment by hosting foreign customs officials at the NTC to facilitate information sharing and collaborative efforts.
 - **Tactical Trade Targeting.** The Tactical Trade Targeting Unit leads a cooperative initiative that identifies targets, generates case leads, and provides rapid and real-time targeting support to HSI and other law enforcement agencies to detect, disrupt, and deter global trade fraud and trade-based money laundering.
 - **Rail Targeting.** The Rail Targeting Unit is a collaborative effort between CBP and representatives of the rail freight industry to segment risk and facilitate trade. Located in El Paso, Texas, the Rail Targeting Unit and its rail partners share cross border rail shipment information to expedite the flow of legitimate rail commerce.
 - **Real-time Vessel Targeting and Tracking System.** This system is a collaborative effort with the U.S. Coast Guard (USCG) and CBP components within ATS that increases CBP's ability to identify and mitigate threats in the maritime environment by incorporating geospatial capabilities with customs, immigration, agriculture, law enforcement, and other data sources. ATS provides a holistic view of the commercial vessels, cargo, crew, and passengers entering U.S. seaports in advance of a vessel's arrival.

Did You Know?

In December 2013, CBP established the Integrated Trade Targeting Network (ITTN), an integrated operational network between all of CBP's trade targeting assets to improve communications, coordinate actions, and standardize procedures for more effective trade targeting. The ITTN promotes sustained and coordinated efforts that lead to definitive enforcement actions between OFO, OT, and HSI. In FY 2016, as part of the ITTN mission to deter global trade fraud activities and coordinate all CBP targeting activities in support of trade enforcement efforts, the ITTN coordinated 42 national Trade Special Operations (TSOs). TSO efforts resulted in over 2,800 seizures, valued at over \$99 million at the manufacturer's suggested retail price (MSRP) for IPR and trade fraud violations.



SUCCESS STORY

The NTC continues to support DEA Special Operations, HSI/ICE, and the FBI by targeting and interdicting synthetic narcotics entering the U.S. through express consignment hubs in Cincinnati, Louisville, Los Angeles, and Memphis. In FY 2016, efforts resulted in 365 seizures, totaling 2,523 kilograms and 14 arrests.

NTC-Investigations Division (NTC-I): A division within NTC, NTC-I enhances the entire border security continuum, from CBP interdictions and HSI investigations to joint exploitation of intelligence. The division supports ongoing HSI investigations, provides quality investigative referrals and intelligence to HSI field offices, and expands collaboration within CBP. This includes the establishment of new interfaces between the CBP TECS system (formerly known as the “Treasury Enforcement Communications System”) and the ICE Investigative Case Management system to support data sharing for HSI investigations.

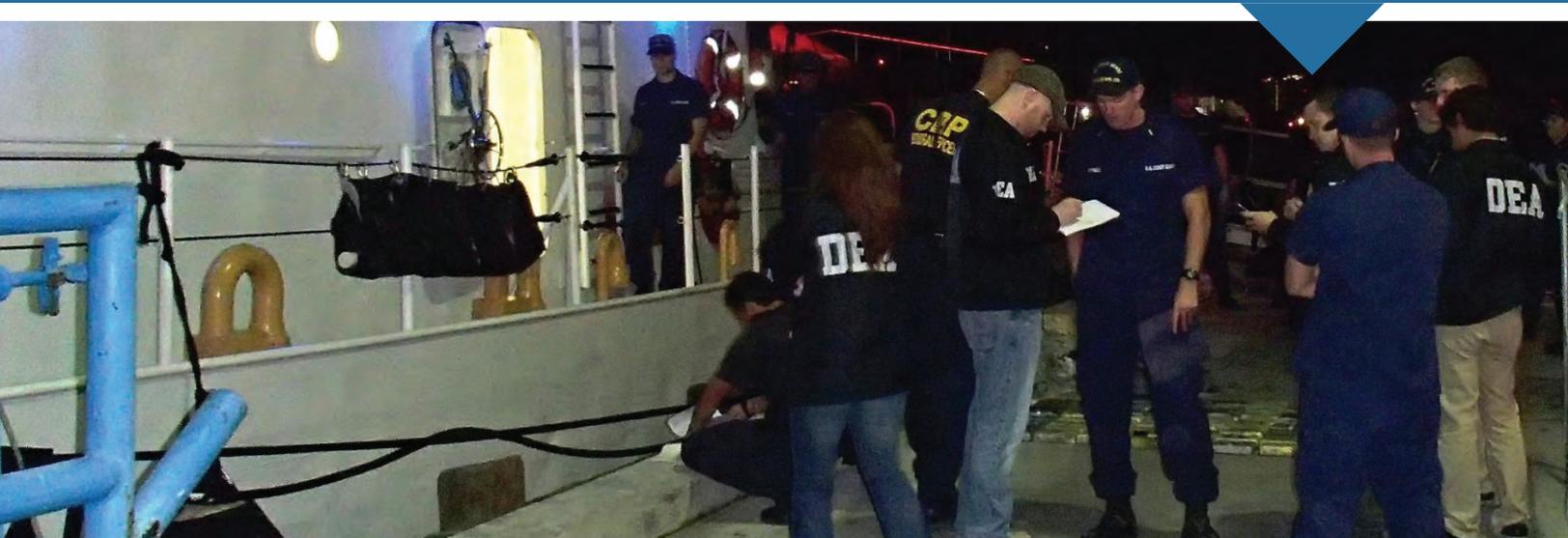
NTC Counter Terrorism Division (NTC-CTD): The NTC-CTD was established to set a comprehensive approach to training, educating, and further developing CBP’s frontline in the counterterrorism mission. Additionally, CTD provides close support to specialized teams, including CBP officers assigned to Joint Terrorism Task Forces and Tactical Terrorism Response Teams that focus on high-risk travelers who may pose a national security risk to the United States.

NTC Counter Network Division (NTC-CND): The NTC-CND is a division within the NTC which serves as a centralized point to coordinate a well-informed, agile, and seamless global partnership and leverages advanced technology to share information, analyze trends, and enhance operational effectiveness against illicit networks and other priority targets. This capacity allows CBP to help extend the “zone of security” for the Homeland to transcend the physical border, ensuring that our borders are our last line of defense, not the first.

Global Targeting Advisory Division (GTAD): GTAD continues to establish and enhance information sharing arrangements with foreign governments, particularly through sharing the ATS-G application. ATS-G allows foreign governments to use advance traveler data to conduct risk assessments to optimize enforcement activities against high-risk persons while facilitating the movement of legitimate travelers.

**SUCCESS
STORY**

In FY 2016, the CBP Attaché Rome worked with the DEA Rome Country Office, and the Italian Guardia di Finanza (GdF) to conduct an investigation targeting Italy’s most powerful organized crime groups that resulted in the seizure of more than 11 metric tons of cocaine and over 111 arrests worldwide. In addition to the seizures of cocaine from containers and various vessels, the targeting of 7 laboratories located in Colombia enabled authorities to seize large quantities of precursor chemicals used to manufacture cocaine and also completely dismantle those laboratories.



**SUCCESS
STORY**

In FY 2016, the CBP Attaché Hong Kong worked with the HSI Attaché Hong Kong to coordinate a highly successful joint IPR enforcement operation with Hong Kong Customs. The operation, which targeted counterfeit National Football League (NFL) merchandise in advance of the Super Bowl, yielded approximately 900 total seizures.

Laboratories and Scientific Services Directorate (LSSD) Teleforensic Center (TC): CBP LSSD TC provides field personnel with 24/7 “hot line” access to scientific and technological resources. Field personnel’s primary duties include detection, isolation, and control of potential threats that may result from the presence of chemical, biological, radiological, or nuclear (CBRN) materials. The TC adjudicates over 15,300 of these types of cases each year. The LSSD TC also provides radiological/nuclear reachback training not just to CBP officers, but also to USBP agents, USCG officers, and TSA Visible Intermodal Prevention and Response Federal Air Marshals. TC trained 1,251 officers and agents in FY 2016.



Objective B: Enhance Procedures and Partnerships that will Facilitate Interagency and International Border Enforcement Coordination

CBP strengthens domestic and international partnerships to provide greater synergy, reduce unintended redundancies, improve communications, and serve as a force multiplier.

Interagency and international coordination entails integrating intelligence, surveillance, and reconnaissance capabilities into law enforcement operations.

This includes ensuring all partners have access to the same operational information and that CBP has information on other agencies' activities, initiatives, and resources.

CBP serves in operational and advisory capacities to coordinate resources and identify and stop threats before they reach the border. This unifies efforts in detecting, interdicting, deterring, and disrupting terrorists, transnational criminal organizations and transnational criminal networks, and cross-border criminal activity.

Strategies to Enhance Procedures and Partnerships that will Facilitate Interagency and International Border Enforcement Coordination

Unmanned Aircraft System (UAS) Operations: In FY 2016, AMO worked with the DoD's Unified Combatant Commands – U.S. Northern Command and U.S. Southern Command – and the Joint Interagency Task Force-South to expand UAS operations in drug source, transit, and arrival zones. In FY 2016, AMO flew P-3 and Guardian UAS missions from forward operating locations in Colombia, El Salvador, Honduras, and the Dominican Republic.

Border Community Liaison Program: This program encourages direct interaction between CBP and members of local communities to gain a better perspective of community views and to promote CBP's mission. This collaboration with local border communities supports CBP's mission, strengthens relationships, and offers a forum for community feedback.

Regional Coordinating Mechanisms (ReCoMs): ReCoMs are collaborative law enforcement groups that operate in the maritime domain of CBP, HSI, USCG, and other local, state, and federal law enforcement agencies. ReCoMs coordinate maritime operations around the nation through integrated planning, information sharing, and intelligence unification to expand detection beyond standard patrols.

Miami Sector Boat Rider Initiative: Miami Border Patrol agents routinely conduct maritime anti-smuggling operations off the Florida coast in cooperation with sheriffs' offices. To support these joint operations, Miami Sector instituted a boat rider initiative, in which agents are assigned to sheriffs' marine enforcement units. These joint patrols target known TCOs that use vessels to smuggle drugs and aliens from the Bahamas and Cuba to the Florida coast.



Special Operations Group (SOG): The USBP SOG provides DHS, CBP, and the USBP with specially-trained and equipped teams capable of rapid response to emergent and uncommon law enforcement situations requiring special tactics and techniques, search and rescue, and medical response capabilities.

USBP SOG has supported CBP INA initiatives in multiple countries including Mexico, Panama, Costa Rica, Guatemala, El Salvador, Ukraine, and Kosovo. The SOG Border Patrol Search, Trauma, and Rescue (BORSTAR) Dive Team conducted training for Ukrainian border security law enforcement personnel in Panama City, Florida. The dive team also conducted a comprehensive, multi-agency “hull sweep” – the inspection of maritime cargo vessels below the waterline by trained divers to locate improvised compartments attached to the hull, used for surreptitiously smuggling drugs and other contraband into the U.S. – of a foreign vessel for the port of Panama City, Florida.

Did You Know?

International Capacity Building Program: CBP’s international capacity building efforts focus on drugs and crime control, non-proliferation, export control, border security, and private sector partnership programs. The program participates in joint strategic planning efforts that include border security assessments in host countries to determine the type of training and equipment needed to improve operations.

International Visitors Program (IVP): CBP hosts visits to assist with capacity building and long-term sustainment. This program informs officials from foreign customs, immigration, border patrols, coast guards, and other enforcement administrations about successful CBP border security initiatives, programs, and risk management methodologies/strategies.



SUCCESS STORY

CBP hosted an IVP for Panamanian customs officials to explore the possibility of creating a Panamanian trusted partner anti-terrorism program based on the best practices of CBP’s C-TPAT program. The visit allowed the implementation of the Customs Mutual Assistance Agreements (CMAA) and full enforcement via the channel of standing up a security program similar to that of C-TPAT.

**SUCCESS
STORY**

During FY 2016, ReCoM coordination in the USBP San Diego Sector resulted in the seizure of 21,500 pounds of marijuana valued at more than \$10.7 million, 230 arrests of non-U.S. citizens, and 11 arrests of U.S. citizens engaged in smuggling operations.



Immigration Advisory Program (IAP) and Joint Security Program (JSP): IAP is part of CBP’s pre-departure strategy to prevent terrorists and improperly documented travelers from boarding U.S. bound commercial flights. JSP is a component of the IAP, which partners CBP officers with host country law enforcement to disrupt terrorist travel and intercept drugs, bulk currency, illegal migrants, and fugitives. In FY 2016, IAP and JSP officers, in conjunction with NTC advance targeting, issued 4,548 “no board” recommendations to carriers and host governments, which resulted in an estimated savings to CBP of \$11.3 million in adverse action processing costs for travelers who would have been denied entry at U.S. ports of entry.

CBP Attachés/Advisors Program: CBP Attachés partner with foreign governments/agencies, international organizations, and U.S. agencies to enhance CBP’s ability to mitigate and avoid risks related to cargo security and trade enforcement. These partnerships also facilitate information sharing between CBP and foreign counterparts on mutual areas of interest such as preventing, detecting, and interdicting illegal shipments. The Attachés provide strong relationships with CSI, the Secure Freight Initiative, IAP, C-TPAT, and capacity building host government officials.



Objective C: Strengthen Global Supply Chain Security

CBP promotes the efficient flow of legitimate commerce while protecting the global supply chain from a diverse range of threats including counterfeit and unsafe goods, agricultural pests and diseases, and fraudulent and criminal trade schemes. CBP's approach is aligned with the President's National Strategy for Global Supply Chain Security. This national strategy calls for the protection of a global supply chain system that supports innovation and prosperity by the secure, timely, and reliable movement of goods across the borders and around the world.

By coordinating with international partners, CBP develops and maintains a more accurate picture of threats and trends across the global supply chain. CBP continually gathers information to manage risk and mitigate systemic vulnerabilities to disruption and exploitation.

Strategies to Strengthen Global Supply Chain Security

Non-Intrusive Inspection (NII) Technologies: CBP officers and agents use a variety of large- and small scale NII technology to examine conveyances thoroughly and quickly for the presence of contraband and WMDs without damaging the conveyance or its contents.

Container Security Initiative (CSI): CBP officers work with host country counterparts to examine containers and identify those that pose a high risk for terrorist activity. The initiative is operational at 60 foreign seaports in 35 countries - covering approximately 80 percent of the maritime containerized cargo shipped to the U.S. In FY 2016, CBP officers stationed at CSI ports reviewed 11.9 million bills of lading and conducted over 101,800 exams in conjunction with their host country counterparts. CSI is currently engaged in a broad, strategic effort with host country partners to expand the scope of CBP's targeting and examinations beyond the current declarations of principle and include all customs violations and threats.

Customs-Trade Partnership Against Terrorism (C-TPAT) Program: This program safeguards global trade by validating C-TPAT member companies' supply chain security procedures. Members are incentivized to ensure their supply chains meet or exceed C-TPAT security criteria. At the end of FY 2016, C-TPAT had 12,083 program participants and 11,506 certified partners.

Automated Targeting System (ATS): ATS is a web-based enforcement and decision-support tool that incorporates intelligence information and technologies to target suspect inbound and outbound shipments for examinations and passengers for inspection. It allows CBP officers to focus their efforts on cargo shipments and passengers that most warrant further attention.

- **ATS-Cargo:** This module evaluates inbound cargo to identify high-risk cargo for examinations. It uses numerous rules, weight sets, and models to analyze information from manifest, importer security filing, and entry data to prioritize shipments for review and recommend targets. The module also vets individuals against lookouts and prior violations. ATS-Cargo compares information on cargo arriving in, transiting through, and exiting the country against law enforcement and intelligence databases to identify cargo requiring additional scrutiny based on pattern recognition.
- **ATS – Passenger (ATS-P):** ATS-P is a web-based enforcement and decision support tool used to collect, analyze, and disseminate information for the identification of potential terrorists, transnational criminals, and, in some cases, other persons who pose a higher risk of violating U.S. law. ATS-P capabilities are used to augment the CBP Officer's decision-making about whether a passenger or crew member should receive additional scrutiny. ATS-P is also used within CBP by Passenger Analytical Units (PAUs) at ports of entry, the NTC, Border Patrol agents, CBP headquarters intelligence analysts, and within DHS by DHS agents, analysts, and officers in the Office of Intelligence and Analysis (I&A), ICE, USCG, and TSA.

The most recent version of ATS-P is Unified Passenger (UPAX). UPAX is a technology refresh that updates and replaces the older functionality of the legacy ATS-P interface. This update allows ATS to process traveler information against other information available in ATS and apply risk-based rules centered around CBP Officer experience, analysis of trends of suspicious activity, and raw intelligence from DHS and other government agencies.

Specifically, the UPAX functionality unifies multiple possible match results from multiple source systems; reduces record duplication and streamlines the review process; standardizes the backend components under the CBP Target Technical Architecture to ensure consistency and improve maintainability and reusability; standardizes the entity resolution algorithms across all match results, providing improved consistency and maintainability as algorithm improvements are made and applied across the system; consolidates the front-end risk assessment components of ATS-P with the case management capabilities of the Targeting Framework (TF) under one user interface; and consolidates the query results across multiple source systems into an integrated view, including ATS-TF, that eliminates the need for analysts to log into separate systems as they conduct their research. Finally, ATS-P contains a Land (ATS-L) module. This module evaluates border crossing records as well as internal and external data sources for land border targeting.

- **ATS – Targeting Framework (ATS-TF):** This module searches across data sources in other ATS modules and allows users to initiate research activities, collaborate among analysts, and access past activity logs for intelligence tracking of people and entities of interest. CBP personnel can create ad hoc queries, integrate data from multiple sources, and show possible relationships between entities and data elements.
- **Entitlement:** The Entitlement subsystem of ATS is a group of CBP web applications and services responsible for authentication, authorization, and maintenance of data on users of ATS web applications, including the ATS family of subsystems.

World Customs Organization (WCO): The WCO is an independent intergovernmental body whose mission is to enhance the effectiveness and efficiency of customs administrations. Today, the WCO represents 180 customs administrations across the globe that collectively process approximately 98 percent of world trade. CBP has a long-standing relationship with the WCO, the only intergovernmental organization exclusively focused on customs and border security matters. CBP's cooperation with the WCO includes work in areas covering the development of global standards, simplification and harmonization of customs procedures, supply chain security, facilitation of international trade, enhancement of customs enforcement and compliance activities, anti-counterfeiting and piracy initiatives, public-private partnerships, integrity promotion, and sustainable global customs capacity building programs.



**SUCCESS
STORY**

CBP experts from INA and the OFO/C-TPAT program developed Authorized Economic Operator (AEO) Validation Guidelines and training materials for the WCO. These guidelines will help customs administrations around the globe develop best practices on how officials should validate AEO recognition for commercial companies.

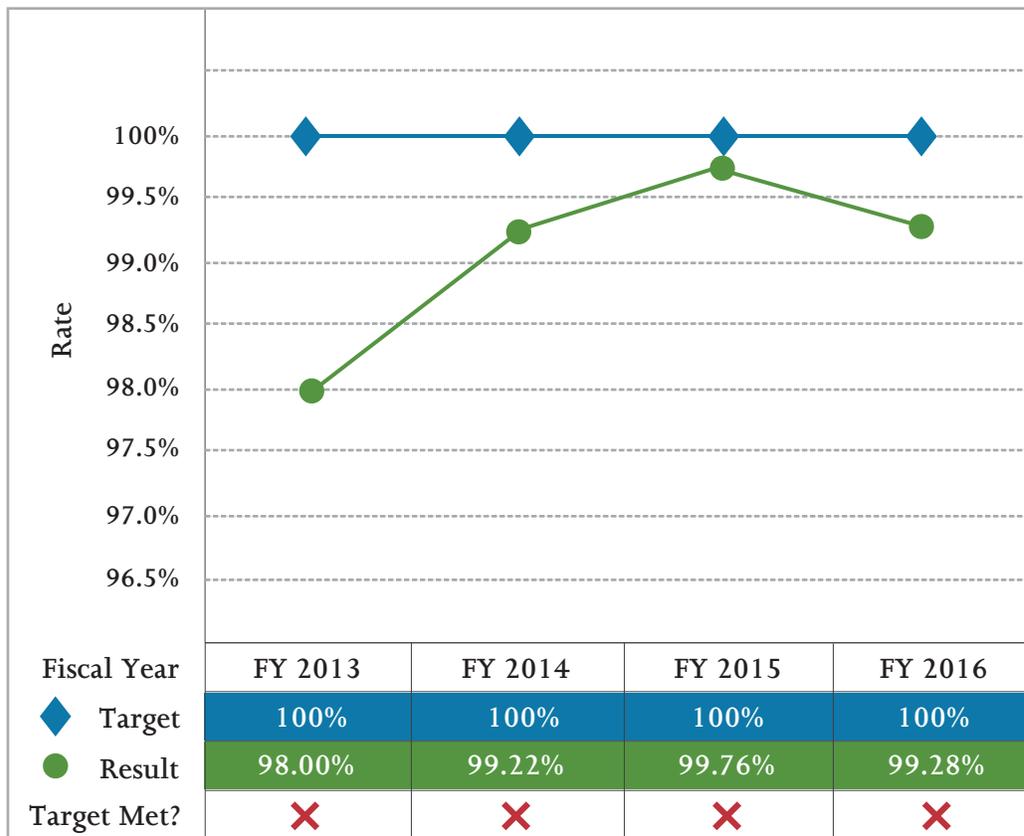


Customs Mutual Assistance Agreements (CMAAs): CMAAs provide the legal framework for the bilateral exchange of enforcement information and evidence to assist countries in the prevention, detection, and investigation of customs offenses and crimes associated with goods crossing international borders including duty evasion, trafficking, proliferation, money laundering, and terrorism-related activities. The U.S. has signed 77 CMAAs with other foreign governments including recent signings of a renegotiated text of the U.S.-Ukraine CMAA on May 23, 2016 in Kyiv, Ukraine, and a new U.S.-Trinidad and Tobago CMAA signed on September 21, 2016 in Port of Spain, Trinidad.

Results for Goal 1: Counter Terrorism and Transnational Crime

Performance Measure 1: Percent of inbound cargo identified by CBP as potentially high risk that is assessed or scanned prior to departure or at arrival at a U.S. port of entry

This measure gauges the percent of international cargo coming to the U.S. via air, land, and sea identified as potentially high risk using the ATS that is assessed or scanned prior to lading or at arrival at a U.S. port of entry. Assessing, resolving, and, when necessary, scanning potentially high-risk cargo prior to lading or at arrival at the ports of entry ensures the safety of the U.S. public and minimizes the impact to trade through the effective use of risk-focused targeting.



Explanation of FY 2016 Results: This measure gauges the overall percent of inbound cargo in the sea, air, and land environments identified as potentially high risk by the ATS that is reviewed, scanned, or otherwise examined prior to lading or at arrival at a U.S. port of entry. Changes to targeting algorithms in FY 2016 led to a slight decrease in air examinations. A small percentage of cargo is not reviewed due to status changes en route, information processing and data entry errors, or logistical and scheduling anomalies.

Corrective Action: To improve measure results, the CBP OFO will continue to work with the Targeting & Analysis Systems Program Directorate to resolve status tracking problems and information processing errors. OFO will also continue to work with shippers and carriers to rectify logistical and scheduling issues.



Goal 2: Advance Comprehensive Border Security and Management

Safeguard and manage our air, land, and maritime borders through active administration of U.S. laws including cross-border criminal activity, screening and scanning at ports, and comprehensive trade enforcement.

Objectives to Accomplish Goal Two – Advance Comprehensive Border Security and Management

- Objective A – Increase situational awareness of the air, land, and maritime borders
- Objective B – Detect, interdict, and disrupt illegal cross-border activities
- Objective C – Strengthen comprehensive trade enforcement
- Objective D – Strengthen processes to conduct outbound enforcement and interdiction of travelers and cargo
- Objective E – Advance a comprehensive, predictive targeting strategy to identify threats as early as possible

Objective A: Increase Situational Awareness of the Air, Land, and Maritime Borders

To increase situational awareness, CBP leads efforts to collaborate and coordinate with local authorities, domestic and foreign law enforcement partners, and the intelligence community. This includes using various tactics to gather information and intelligence including periodic reconnaissance patrols, sign-cutting and tracking, UAS patrols, and routine interaction with security partners within local communities. CBP leverages advanced technologies such as biometrics, mobile surveillance systems, radiation detectors, ground sensors, and imaging systems to better detect, identify, monitor, and appropriately respond to threats across U.S. border regions.

Strategies to Increase Situational Awareness of the Air, Land, and Maritime Borders

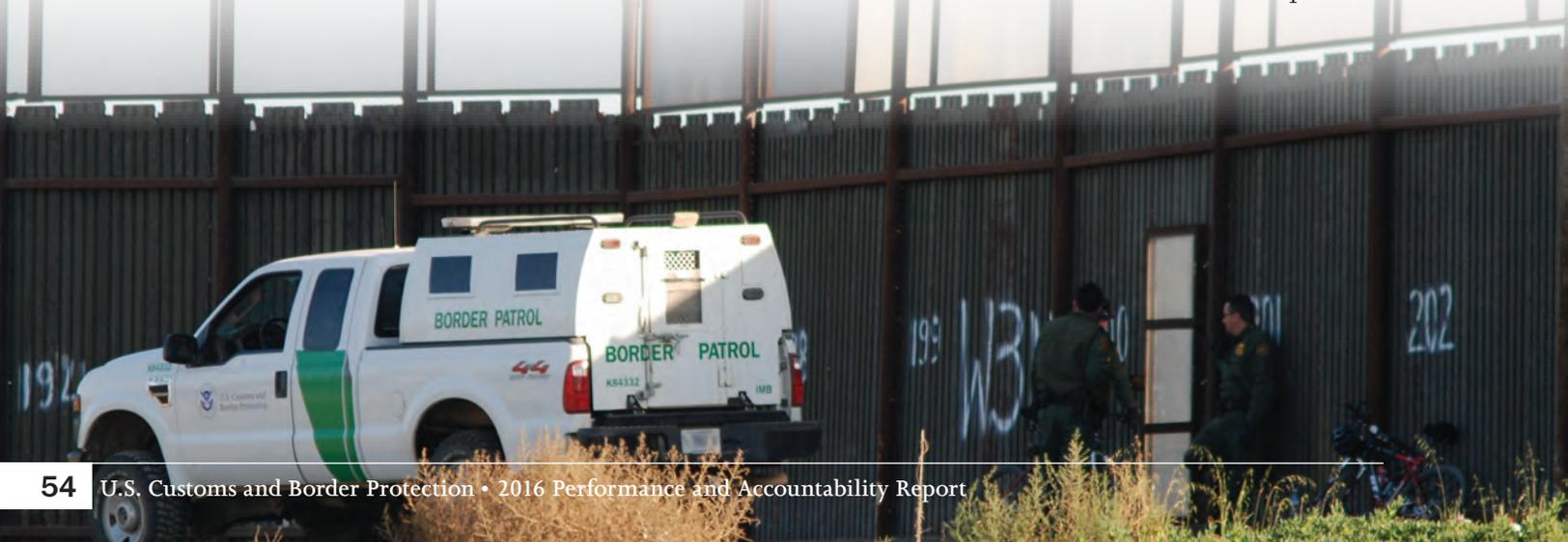
Federal officials seized a cross-border tunnel on the morning of March 23, 2016 following a lengthy multi-agency investigation that resulted in six arrests and the confiscation of more than a ton of marijuana. The tunnel – more than 400 yards in length – stretches from the former El Sarape Restaurant, now a coffee shop, in Mexicali, Mexico, to a two-bedroom Calexico residence located at 902 E. Third Street, about 300 yards north of the international border. In the front room of the residence, agents found a hole concealed in the floor about three feet in diameter with an opening that descends several feet beneath the foundation.



SUCCESS STORY

“This significant cross-border drug seizure and tunnel discovery is an excellent example of the integrated efforts taking place daily across multiple law enforcement agencies to protect America by providing secure borders,” said El Centro Sector Chief Patrol Agent Rodney S. Scott. “This tunnel discovery is further proof that America’s investment in border security is paying off. As we continue to improve border security, criminal organizations are forced to resort to tunneling and other complicated and costly smuggling methods, which increases their exposure to detection by law enforcement.”

Southern Border Bi-National Operations: These operations target the trafficking of drugs, weapons, ammunition, humans, goods, and currency along the U.S./Mexico border. Bi-national operations improve information gathering and analysis so terrorist and TCO threats can be interdicted outside of U.S. borders. Through the Cross-Border Coordination Initiative, USBP conducts operations with the Mexican federal police in mutually agreed-upon zones to degrade TCO activity on both sides of the border. CBP has established international liaison units to coordinate law enforcement activities between CBP and Mexican counterparts.



Border Security Deployment Program (BSDP): BSDP is an integrated surveillance and intrusion-detection system consisting of several thousand cameras and microphones that provide security, motion detection, and remote monitoring across every U.S. land border port of entry and some airports. The system connects via the DHS wide area network communications system to remote monitoring stations located throughout the country and used by OFO and USBP to provide operational support. The BSDP also includes six remote port of entry program facilities on the Northern border that allow remote inspection at low-traffic ports. The centralized command centers house digital video recorders with analytic software to alert watch officers of a detected alarm or intrusion within a port facility.

A circular icon with a scalloped edge and a dashed border, containing the text "SUCCESS STORY" in blue capital letters.

SUCCESS STORY

In March 2016, through cross-border cooperation, USBP Tucson Sector discovered an incomplete tunnel in the Nogales area and neutralized it before it could be used. In November 2015, the Nogales tunnel team also assisted when an 800 yard, sophisticated tunnel between Tijuana, Mexico and San Diego, California was discovered. In FY 2016, a total of nine illicit cross-border tunnels were discovered on the southwest border.

Northern Border Bi-National Operations: Canada and the U.S. collaborate along the Northern border via Integrated Border Enforcement Teams (IBETs) to secure the shared borders. IBETs are comprised of personnel from the following U.S. and Canadian law enforcement agencies: Royal Canadian Mounted Police (RCMP), CBSA, ICE, USCG, and CBP. Bi-national operations use the IBET model as an interdiction platform to integrate other international, federal, state, local, and tribal law enforcement agencies. In FY 2016, USBP conducted 22 bi-national joint operations along the Northern border with Canada.

A circular icon with a scalloped edge and a dashed border, containing the text "SUCCESS STORY" in blue capital letters.

SUCCESS STORY

During FY 2016, USBP Blaine Sector worked with the CBP representative in Vancouver; the DOS in Canada, the U.S., Afghanistan, and Iraq; and the CBSA to track the influx of Afghani and Iraqi refugee claimants entering Canada via the United States. During the first six months of FY 2016, this collaboration resulted in the revocation of more than 700 nonimmigrant visas, the termination of two locally engaged foreign employees at the U.S. Consulate in Kabul for malfeasance, and the investigation of several fraud cases both in the U.S. and overseas.

Air and Marine Operations Center (AMOC): Managed by AMO, the AMOC is a state-of-the-art multi-domain federal law enforcement operations center located at March Air Reserve Base in Riverside, California. AMOC uses sophisticated technology to detect, identify, track, and direct the interdiction of suspect aviation and maritime targets in the Western Hemisphere. AMOC integrates data from hundreds of domestic and international radars and optical sensors to provide surveillance of critical national infrastructure through the U.S., and accomplishes its mission through coordination activity and programs, including:

- **Air and Marine Operations Surveillance System (AMOSS).** Managed and operated by the AMOC, AMOSS stands as one of the most capable domain awareness systems in the country. Capable of fusing up to 700 sensors and displaying up to 100,000 aircraft and vessel tracks simultaneously, it is the primary tool used to provide domain awareness to law enforcement partners both internal and external to DHS. AMOSS currently integrates more than 400 sensor feeds from multiple sources including the Federal Aviation Administration (FAA), DoD, and the governments of Mexico and Canada.

- **International AMOSS Deployment.** Managed by the AMOC, several versions of AMOSS have been deployed to enhance Mexico’s domain awareness capability and provide a means to resolve suspect air targets in northern Mexico. This system fuses existing Mexican government radars and select U.S. radars, enabling more effective bi-national coordination of law enforcement response to air threats in the contiguous U.S./Mexico border area.
- **Tethered Aerostat Radar System (TARS) Program.** AMOC uses TARS to provide long-range detection of low-flying aircraft and limited maritime/ground traffic at the radar’s maximum range.
- **Law Enforcement (LE) Operations Directorate.** AMOC’s Law Enforcement Operations Directorate delivers immediate operational coordination and support to DHS and other federal, state, local, and international partners during events involving suspect air and maritime conveyances. Additionally, the directorate manages an extensive consolidated lookout list and 24-hour alert system in support of a nationwide community of law enforcement agents and officers. This unit also initiates criminal cases and enables prosecution.
- **Intelligence Directorate.** The AMOC Intelligence Directorate develops and disseminates aviation and maritime threat assessments, provides tactical and operational support, conducts trend analysis, and maintains suspect general aviation statistics and indicators. The Intelligence Directorate responds to numerous requests for information to support DHS and other federal, state, local, and international partners.
- **Plans and Programs Directorate.** The AMOC’s Plans and Programs Directorate interacts with CBP entities, interagency partners, and foreign governments on current and future operational planning. It also provides guidance and direction for joint strategic planning at the national level.
- **Processing, Exploitation, and Dissemination (PED) Cell.** Operated by CBP’s OI and physically located at AMOC, the PED Cell uses high-quality, full-motion video to provide near real-time analysis and help direct law enforcement assets to targets. The PED Cell also creates products that highlight emerging trends, provide depictions of pattern-of-life activities, and aid investigative and prosecutorial efforts.
- **Electronic Tracking Device (ETD) Program.** The AMOC is responsible for integrating and managing CBP, commercial and investigative electronic tracking data directly supporting the DHS mission.

Systems Engineering Division: In addition to numerous other capabilities provided to CBP’s programs, this division uses modeling and simulation (M&S) tools to assess technology both before and during system deployments. One tool, Simulation Experiments (SIMEXs), is a set of interactive environments that enable Border Patrol agents, systems engineers, acquisition professionals, and technology vendors to explore new border security concepts and related technologies in a collaborative environment. Another tool, CBP Modeling and Simulation Tool (C-MAST), is a suite of commercial off-the-shelf (COTS) and custom software packages that model the performance of surveillance technologies to facilitate real-time deployment planning of technologies.

Joint Field Command - Arizona



Objective B: Detect, Interdict, and Disrupt Illegal Cross-Border Activities

CBP works closely with other federal agencies to support President Obama’s Strategy to Combat Transnational Organized Crime. CBP expands mobile and rapid interdiction capabilities to further enable a quick and appropriate response to changing threats, targeting the highest risk regions at and around U.S. borders. When illegal cross-border activity is discovered, CBP administers appropriate consequences to discourage recidivist behavior and degrade TCOs and terrorist capabilities.

Strategies to Detect, Interdict, and Disrupt Illegal Cross-Border Activities

Joint Task Force-West (JTF-W): To support the JTF-W, CBP adopted a uniform, integrated corridor operations model across the SWB corridors (JTF-W California Corridor, JTF-W Arizona Corridor, JTF-W New Mexico-West Texas Corridor, and JTF-W South Texas Corridor) to collectively coordinate targeting of DHS’s shared threats and priorities to disrupt and dismantle transnational criminal organizations. Leveraging the integrated corridor operations model, CBP works closely with federal, state, and local law enforcement partners and international counterparts to collect and assess intelligence for enforcement operations. JTF-W focuses on coordinating apprehensions of key corridor targets, prosecutions, and convictions of major smuggling organization members.



SUCCESS STORY

JTF-W developed Operation “All In” to disrupt activities by human smuggling networks and their facilitators with the short-term goal of disrupting migrant flow across the SWB and enhancing long-term criminal investigations and intelligence analysis. Operation “All In” was designed to include a series of short-term “pulses” (i.e., coordinated and synchronized enforcement-related actions that would last one to two weeks in duration). Operation “All In” was conducted from May 23 to August 26, 2016, and served as a unified effort to address current and emerging threats. During the 90 days of Operation “All In,” SWB Corridors and DHS Components applied consequence applications (i.e., operational planning guidance consisting of criminal prosecutions, civil immigration enforcement (removals and revocation of immigration benefits) and intelligence collection) against a total of 204 targets. This included a significant number of egregious immigration violations, including previously deported aliens. Through coordination with impacted U.S. Attorney’s and State District Attorney’s Offices, JTF-W achieved a 96 percent acceptance rate of targets presented for criminal prosecution.

Canine Enforcement (K9) Teams: CBP has the largest and most diverse law enforcement canine program in the United States. CBP canine officers and USBP agents use trained canines for search and rescue, human remains detection, tracking and trailing, and interdicting concealed persons, drugs, and other contraband. The Border Patrol Tactical Unit Canine program uses canine teams for tactical high-stress situations. USBP also has canine horse patrol teams with canines working alongside horseback handlers.

Canine Tracking System (K9TS): The system provides an agency-wide canine information database with search, management, and reporting capabilities. It also is used to track and manage canine selection, training, inventory, health, and operational activity data for each canine team. In FY 2016, existing features were further enhanced to support canine program operations and a new canine training module was added to allow the canine training center instructors to more efficiently manage and report on training activities.

Operation Stonegarden Grant Program: CBP and the Federal Emergency Management Agency (FEMA) worked together to secure the borders along Mexico, Canada, and international waters. Organizations eligible for Operation Stonegarden grant funding include local and tribal governments on the border. Since FY 2006, Operation Stonegarden has provided \$546.5 million in grant funding for coordination and collaboration between federal agencies and state, local, and tribal law enforcement entities to enhance border security. In FY 2016, Operation Stonegarden received a \$55 million allocation. CBP uses risk-based prioritization to allocate grant funds from the DHS Appropriations Act, 2016 (Public Law 114-113). Funding for Operation Stonegarden is authorized by the Homeland Security Act of 2002, as amended.

Consequence Delivery System (CDS): The CDS is an analysis tool that analyzes the effectiveness and efficiency of post-apprehension measures that USBP takes to dissuade and deter illegal re-entry in the U.S. The CDS recommends a course of action based upon the circumstances of an alien's apprehension. CDS enhances border security by the systematic and consistent application of consequences shown to dissuade illegal re-entry attempts and disrupt the smuggling cycle. The recidivism rate indicates CBP's use of more effective and efficient consequences to influence a person's desire and ability to attempt illegal entries. Recidivism has continued to decrease since the January 2011 CDS implementation.

Public Information Campaigns: OPA produces public awareness campaigns to dissuade potential undocumented migrants — particularly 12 to 17 year olds from El Salvador, Guatemala, and Honduras — from embarking on the dangerous trek north to attempt to enter the U.S. illegally via Mexico. The intended audience includes both children and their parents or guardians.

Did You Know?

“The Dangers of the Journey” campaign ran from January through March 2016, including television and radio advertisements in Central America and social media in Mexico. CBP is working with the DOS on a new border security messaging campaign that will contain stronger messaging clearly warning about the dangers of the journey north along with consequences of illegal entry into the U.S.

Border Safety Initiative (BSI): In partnership with OPA, USBP conducts a variety of border safety initiative media campaigns and public events to educate communities about the ongoing efforts to prevent border fatalities as well as the dangers of crossing the border illegally. In FY 2016, CBP held border safety initiative events in San Diego, California; Tucson, Arizona; Sasabe, Arizona; Del Rio, Texas; the Rio Grande Valley, Texas; El Paso, Texas; and Laredo, Texas. All events included the participation of local and national media outlets in addition to federal and local law enforcement partners, non-governmental organizations, and personnel from the local consulates for Mexico, Honduras, and El Salvador.

Coastal Interceptor Vessel (CIV): AMO developed a new generation of CIV that will provide Marine Interdiction Agents with requisite speed, maneuverability, and improved safety and comfort to perform their maritime mission. The first CIV was delivered in May 2016.

Laboratories & Scientific Services (LSS) Field Triage Infrared Reachback (FTIR) Program: This program was launched in November 2014. The purpose of the program is to rapidly identify illicit courier hubs and international mail shipments to produce more successful, controlled deliveries while simultaneously allowing for the quick release of non-offending, detained importations. Frontline CBP officers at various sites have been trained to collect chemical spectra (i.e., energy type fingerprint related to the chemical bonds in a chemical compound) of suspect samples using the FTIR and transmit the spectra to a CBP lab facility for analysis to determine the legitimacy of the substances. In FY 2016, approximately 8,354 items were triaged with the FTIR program.

Tunnel Interdiction: LSSD Interdiction Technology Branch (ITB) is the lead technical authority for tunnel technologies within CBP. In 2013, LSSD outfitted a vehicle, known as the Tunnel Response Vehicle, to respond to requests for assistance in subterranean investigations. CBP, ICE/HSI, DoD, FBI, and the intelligence community have all made requests for the tunnel response vehicle. The vehicle has performed subterranean surveys for tunnel adjudication, and has executed searches for underground caches. In FY 2016, the tunnel response vehicle was requested and deployed eight times.



Did You Know?

LSSD's ITB is working with Lawrence Livermore National Laboratory to analyze tunnel threats and display results within CBP's geospatial architecture. This will enable CBP managers to perform a dashboard analysis that will include tunnel threat levels for each tunnel-type, sensor configurations, and historical technical data from deployments. This capability will be crucial in two ways: it will ensure resources are prioritized to the highest threat areas, and it will aid in future tunnel interdiction tactical planning.

Officer Recruiting: HRM leads recruitment efforts for CBP officers and Border Patrol agents to meet the congressionally appropriated staffing levels of 23,861 CBP officers and 21,370 Border Patrol agents. HRM accomplishes this through effective recruitment strategies and management of the Agency's frontline hiring pipeline. Through the Advanced Hiring Hub Program and other hiring initiatives, HRM conducted over 4,400 recruitment events and processed over 272,000 applications during FY 2016. From October 1, 2015 through September 1, 2016, 651 CBP officers, 623 Border Patrol agents, and 25 AMO officers were hired through these and other recruitment events. The Advanced Hiring Hub Program also leveraged existing CBP facilities for processing, which reduced overall costs and reduced CBP's hiring time by over 57 percent.

Objective C: Strengthen Comprehensive Trade Enforcement

This objective aims to secure and intercept unlawful cargo and enable the swift movement of legitimate trade. CBP maximizes the use of trade intelligence, working with the private sector to better use targeting capabilities, detect bad actors earlier in the supply chain, respond to real-time risks, and anticipate new threats before they fully emerge. Using automated risk-segmentation, CBP expedites low-risk trade, focusing enforcement resources on identifying high-risk shipments that may contain unsafe merchandise. CBP leads an international network of customs authorities and law enforcement agencies to defeat the global network of criminals involved in unlawful international trade practices.

Strategies to Strengthen Comprehensive Trade Enforcement

Trade Facilitation and Trade Enforcement Act of 2015 (TFTEA): On February 24, 2016

President Obama signed into law the TFTEA. Under this law, CBP's Office of International Trade became the Office of Trade and was elevated to the status of an operational office within CBP. With the signing of the TFTEA, Congress and the

administration have sent a clear signal that security through U.S. economic competitiveness and enforcement of our trade laws and regulations are among the country's highest priorities. The Act designates two new priority trade issues in agriculture and revenue. These areas join import safety, intellectual property rights, antidumping/ countervailing duties, textiles/wearing apparel, and trade agreements as priority trade issues for CBP.

Commercial Targeting and Analysis Center (CTAC):

Led by CBP, the CTAC brings together 11 partner federal regulatory and enforcement agencies to enforce import safety laws. The center's work protects American consumers by targeting a myriad of high-risk, dangerous goods ranging from unsafe engines, vehicles, and their parts to toys, flammable clothing, pharmaceutical products, and food products.

e-Allegations: This system allows concerned individuals to report illegal import and export activities through the CBP.gov website (<https://eallegations.cbp.gov>). The e-Allegation process facilitates formal communication protocols for CBP personnel to pursue meaningful dialogue with claimants. Since its inception in 2008, approximately 11,000 allegations have been reported and processed through the portal.

Trade Analytics: CBP pursues opportunities with the academic community to take advantage of innovative and creative models to analyze the unprecedented information windfall known as "Big Data." OT is partnering with Johns Hopkins University's (JHU's) Applied Physics Laboratory (APL) to adapt new analysis capabilities to vast sets of trade data. In FY 2016, subject matter experts from JHU teamed up with CBP experts to pilot analytical tests.



Analytical Framework for Intelligence (AFI) System: This system gathers and develops information about persons, events, and cargo of interest by indexing relevant data. The data is integrated with analytical tools that provide link analysis and geospatial capabilities. The tools are used to detect trends, patterns, and emerging threats as well as identify non-obvious relationships between persons, events, and cargo to generate tactical, operational, and strategic law enforcement intelligence products.

Intellectual Property Rights (IPR) Enforcement: In FY 2016, CBP and ICE/HSI made seizures of counterfeit and pirated goods worth an estimated MSRP of \$1.38 billion. The top commodities seized were watches/jewelry, handbags/wallets, consumer electronics, wearing apparel, and pharmaceutical products.

Forced Labor: By law [Section 307 of the Tariff Act of 1930 (19 U.S.C. § 1307)], merchandise that is mined, produced, or manufactured, wholly or in part, in any foreign country by convict, forced, or indentured labor cannot be imported into the United States. If information reasonably, but not conclusively, indicates that merchandise within the purview of this provision is being imported, CBP’s Commissioner may issue “withhold release orders” (WRO) to prevent these goods from entering the commerce of the United States.

Did You Know?



The TFTEA repealed the “consumptive demand” clause in an earlier law, 19 U.S.C. § 1307, which allowed importation of forced labor goods “if the goods were not produced in such quantities in the United States as to meet the consumptive demands of the United States.” That exemption has now been removed, and no goods produced by forced labor are permitted to enter the commerce of the U.S. This increases CBP’s ability to safeguard human rights.

SUCCESS STORY

Since 2007, CBP has signed 11 Mutual Recognition Arrangements (MRAs) with many of the U.S.’s key trading partners including Canada, the European Union (EU), Japan, Mexico, and South Korea. Through an MRA, CBP recognizes that a foreign customs administration program, known as an AEO, is compatible in terms of security to C-TPAT. One of the key benefits to CBP of an MRA is that C-TPAT does not have to send its staff overseas to validate a facility that is AEO certified by a country where CBP has signed an MRA.



Objective D: Strengthen Processes to Conduct Outbound Enforcement and Interdiction of Travelers and Cargo

CBP develops partnerships to share common data and intelligence, deploy innovative and cost-effective solutions, and support unity of effort across a global network of enforcement agencies. CBP creates information sharing programs to enhance outbound enforcement by allowing the exit information from one country to serve as the entry information for the other country, providing a low-cost method to validate people and cargo and alleviate the need for costly new infrastructures or processes.

Strategies to Strengthen Processes to Conduct Outbound Enforcement and Interdiction of Travelers and Cargo

Outbound Mission: CBP's outbound mission is to interdict the illegal export of unreported currency, firearms, ammunition, and stolen property; prevent international terrorist groups and rogue nations from obtaining sensitive and controlled commodities; arrest fugitives; increase export compliance; and ensure that travelers and commerce departing the U.S. comply with U.S. export laws and regulations. In FY 2015, CBP began piloting the electronic submission of export manifest data in the air environment. It provides CBP with an enhanced capability to assess risk of shipments departing the U.S. Automation of the export manifest expanded to the sea and rail environments in FY 2016.



SUCCESS STORY

While the Department of Health and Human Services (HHS) is the overall lead for the federal response to the Zika virus, CBP's OFO remains actively engaged with the Centers for Disease Control and Prevention (CDC) to assess the situation and determine necessary measures. The CDC has determined that screening travelers will not prevent the Zika virus from entering the U.S.; however, for prevention measures and avoidance awareness, CBP is distributing Zika health advisory information in English and Spanish at all of the Southwest ports of entry and at OFO facilities in the Pacific and U.S. Virgin Islands. Multimedia slide presentations are shown and posters are displayed at 20 CBP model ports including San Juan, Puerto Rico. Additionally, OFO is providing CDC's senior leadership with critical data such as demographic information on the numbers of air, land, and sea travelers arriving from Zika virus affected countries and U.S. territories. The data is used to support CDC planning, program analysis and evaluation of capabilities, and response. OFO personnel observe all travelers entering the U.S. at ports of entry for overt signs of illness. If a traveler exhibits signs of illness, the traveler is referred for secondary CBP inspection and potentially to the CDC for medical evaluation.



Automation at Outbound Locations and Checkpoints: CBP continues to incorporate new technologies for outbound vehicle and Border Patrol checkpoint processing. In FY 2016, CBP continued upgrading outbound locations and Border Patrol checkpoints with fixed license plate readers and mobile handheld devices. In FY 2016, the new outbound technologies on the SWB facilitated the seizure of more than \$7 million in cash, 94 firearms, 86,300 rounds of ammunition, and the arrest of 530 wanted fugitives or violators of export laws. In FY 2016, three tactical checkpoints, encompassing a total of five lanes of traffic, received tactical license plate reader technology installations. In addition, CBP began and completed upgrades on tactical license plate reader technology at 28 Border Patrol checkpoints.

**SUCCESS
STORY**

On July 4, 2016, CBP officers stopped a woman from entering Mexico at the Port of Nogales in Arizona with 10,000 rounds of ammunition in her trunk. The woman's vehicle and the ammunition were seized by agents.

Did You Know?



CBP's Integrity and Professionalism Standards Division (IPSD) uses BSDP to review incidents that occur at the ports of entry – for example, where the USBP makes a seizure at an interior checkpoint. The camera shows the timeframe when the vehicle or person crossed into the U.S. IPSD observes the officer's primary inspection and based on those observations determines if the officer would have or could have been aware of any contraband that is later identified at the checkpoint.

Objective E: Advance a Comprehensive, Predictive Targeting Strategy to Identify Threats as Early as Possible

CBP uses an integrated targeting strategy to identify high-risk passengers and cargo so that international travelers and shipments can move more quickly through the inspection process. The Agency coordinates with domestic, international, and private sector partners to conduct joint targeting programs that identify high-risk passengers and cargo in real-time.

CBP pursues innovative solutions, techniques, and methodologies to enhance the targeting enterprise to confront a persistently shifting threat environment. This includes applying advanced data analytics to combine shipment data, biographical and biometric data, past importation and travel patterns, and enforcement action information to stay ahead of emerging threats.



SUCCESS STORY

On March 2, 2016, the crew of a P-3 Long Range Tracker (LRT) based out of Corpus Christi, Texas detected a self-propelled semi-submersible (SPSS) vessel northeast of the Galapagos Islands. The following day, a P-3 LRT crew, based out of Jacksonville, Florida, found the SPSS vessel again and handed off surveillance to a U.S. Navy maritime patrol aircraft crew. JIATF-South coordinated the subsequent interdiction with a USCG vessel crew. JIATF-South reported the arrest of four individuals and the seizure of 12,800 pounds of cocaine.

Strategies to Advance a Comprehensive, Predictive Targeting Strategy to Identify Threats as Early as Possible

Vehicle and Dismounted Exploitation Radar

(VADER): VADER is a strategic and tactical operations sensor used on a UAS that provides comprehensive situational awareness for an expanded area. This airborne radar is capable of efficiently locating persons attempting illegal entry into the United States. It distinguishes between vehicles and people in real-time at tactically significant ranges and enables AMO to detect large numbers of individuals and conveyances in the border environment.

Coherent Change Detection

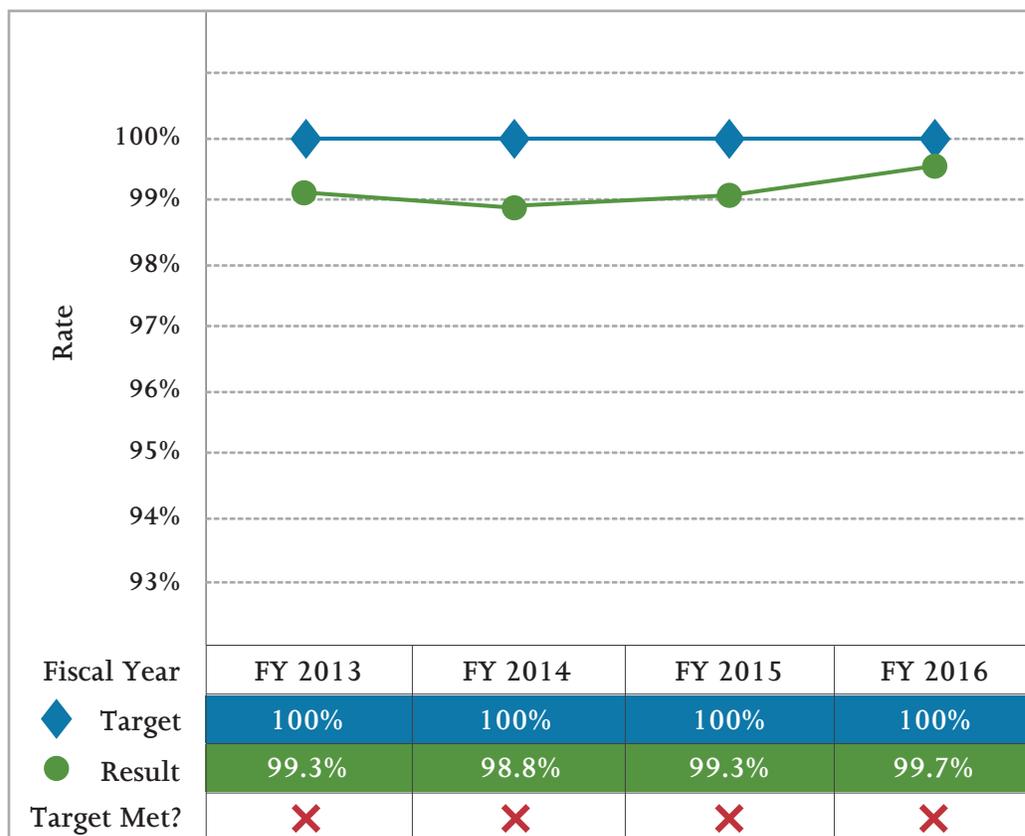
(CCD): CCD is a geospatial intelligence technique used to collect and compare images from the same location at different times. AMO employs CCD during day-to-day operations and during disasters, routinely flying Synthetic Aperture Radar (SAR) runs to collect strategic information such as vehicular traffic and patterns of life in remote areas.



Results for Goal 2: Advance Comprehensive Border Security and Management

Performance Measure 2: Percent of detected conventional aircraft incursions resolved along all borders of the United States

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, CBP’s AMO assets are launched to interdict the aircraft. In most cases, resolution of the aircraft identity is made by AMOC working with interagency partners, such as the FAA. If the incursion is deemed legal, AMO considers the incursion resolved. If AMOC could not identify the target in working with our partners, including AMO assets, the incursion is deemed unresolved and is thus considered illegal.

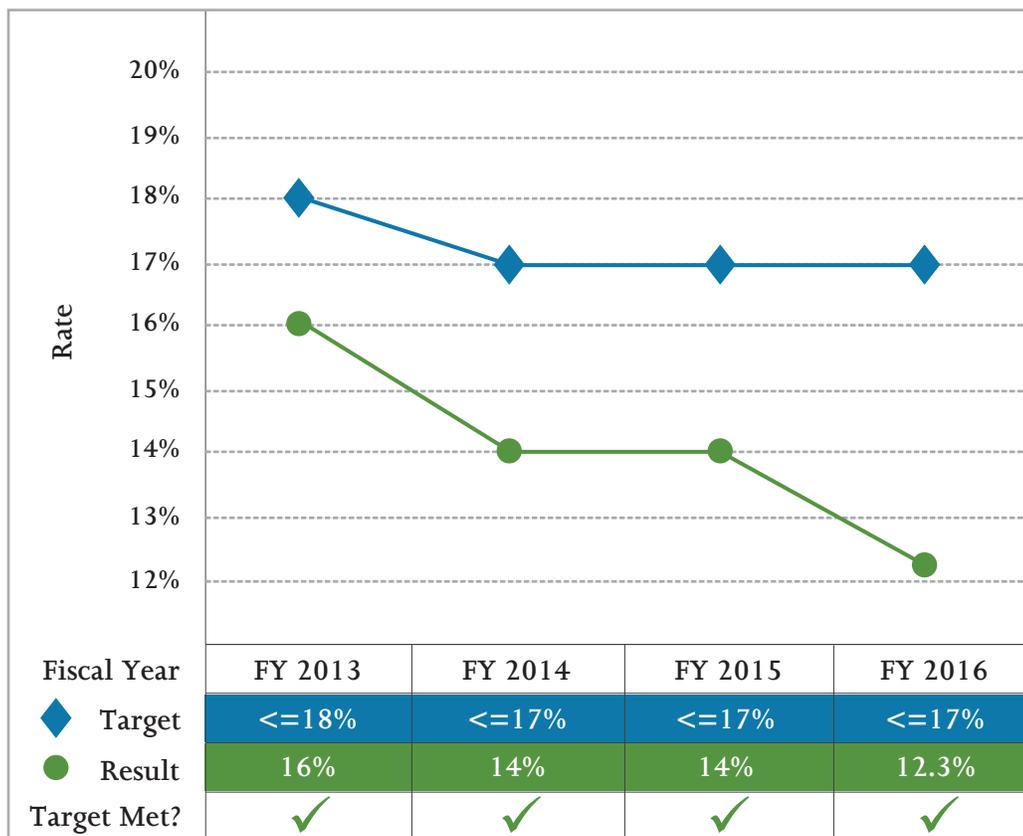


Explanation of FY 2016 Results: In FY 2016, the AMOC and Marine Operations Center resolved 296 of 297 Border Incursions. The one unresolved conventional aircraft incursion was based on a single report from a CBP Officer on the Northern border during the first quarter of FY 2016. AMO worked with USBP and the Royal Canadian Mounted Police in an effort to locate the aircraft; however, the AMOC could not acquire the radar contact and the investigation was closed. The AMOC will continue to coordinate with responding partners and increase surveillance capability through integration of FAA and DoD radar technology along the border environment to better detect and resolve low flying aircraft incursions.

Corrective Action: The AMOC employs a hemispheric approach to integrate domestic and foreign radars to help fill coverage gaps, increasing AMO’s ability to detect, track, and interdict aircraft involved in illicit activity. AMOC has added 19 of 31 identified additional radars and continues to work closely with the FAA to acquire the feeds as they become available. Additionally, since 2015, AMOC has also completed work to integrate a total of 28 foreign radars into the AMO Surveillance System architecture, including 23 Mexican radars.

Performance Measure 3: Percent of people apprehended multiple times along the Southwest border

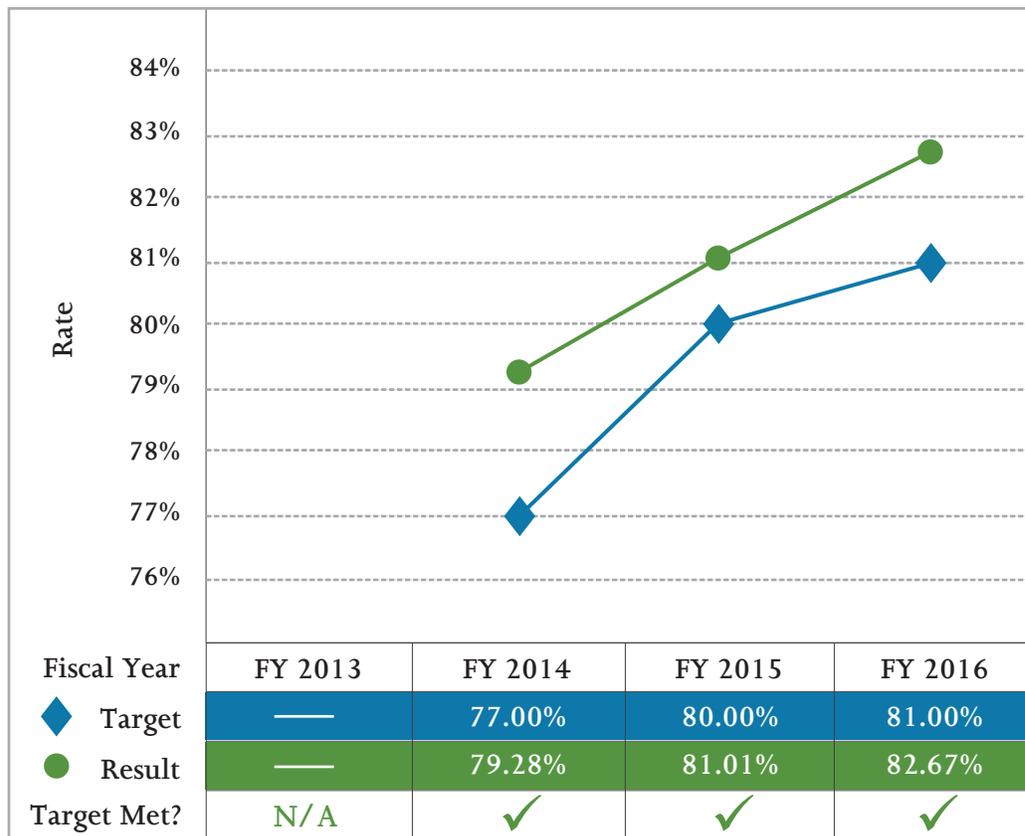
This measure examines the percent of deportable individuals who have been apprehended multiple times by USBP. This measure calculates the number of people apprehended multiple times divided by the total number of apprehensions of people during a fiscal year. Effective and efficient application of consequences for illegal border crossers will, over time, reduce overall recidivism.



Explanation of FY 2016 Results: USBP uses the CDS on the SWB as a means to employ an analytical process that standardizes decision-making in the application of consequences and examines the efficiency and effectiveness of individual consequences on various types of deportable aliens. Recidivism and the average number of apprehensions per recidivist are the strongest indicators of CDS effectiveness. Since CDS implementation in FY 2011, the annually reported recidivism rate has decreased each year from an average of 27 percent to 12 percent in FY 2016 and average apprehensions per recidivist decreased from 2.71 to 2.37 in FY 2016. Contributing factors to the reduction included reducing the percent of apprehensions resulting in a Voluntary Return, the least effective and efficient consequence, and applying more effective and efficient consequences to illegal aliens with a higher probability of making subsequent illegal entries.

Performance Measure 4: Rate of interdiction effectiveness along the Southwest Border between ports of entry

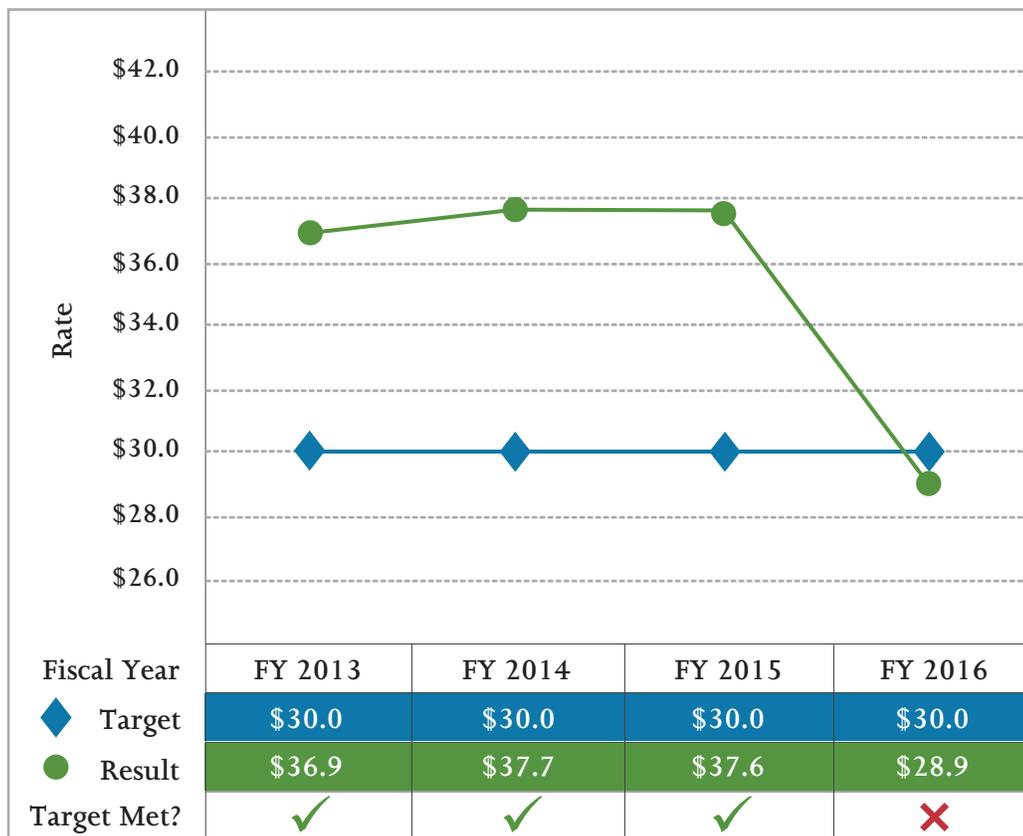
This measure reports the percent of detected illegal entrants who were apprehended or turned back after illegally entering the U.S. between the ports of entry on the SWB. USBP achieves this desired strategic outcome by maximizing the apprehension of detected illegal entrants or confirming that illegal entrants return to the country from which they entered, and by minimizing the number of persons who evade apprehension and can no longer be pursued.



Explanation of FY 2016 Results: The Interdiction Effectiveness Rate (IER) for FY 2016 is 82.67 percent, which is roughly a 1.5 percent increase from the FY 2015 IER of 81.01 percent. There was an increase of known traffic of family units (FAMU) and unaccompanied children (UAC) in FY 2016 compared to FY 2015. FAMU travel has doubled from the FY 2015 total of 9 percent to 18 percent. While the increase in FAMUs and UACs is noteworthy, the groups are not making a significant impact on IER as the IER has remained relatively consistent despite the recent increase in FAMU and UAC apprehensions. Risk along the SWB is compounded as Border Patrol agents who, rather than patrolling the field, spend time processing apprehended aliens who self-surrender. The IER reflects a higher capability for our agents to respond than our resources might otherwise allow, as undocumented aliens are turning themselves in and resources are only deployed to those areas that are deemed to be the highest risk.

Performance Measure 5: Amount of smuggled outbound currency seized at the ports of entry (in millions)

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, which is then transferred to the Department of the Treasury Asset Forfeiture Fund or other Federal agencies. The scope of this measure covers both the Southwest and Northern borders and includes all modes of transportation (land, air, and sea).

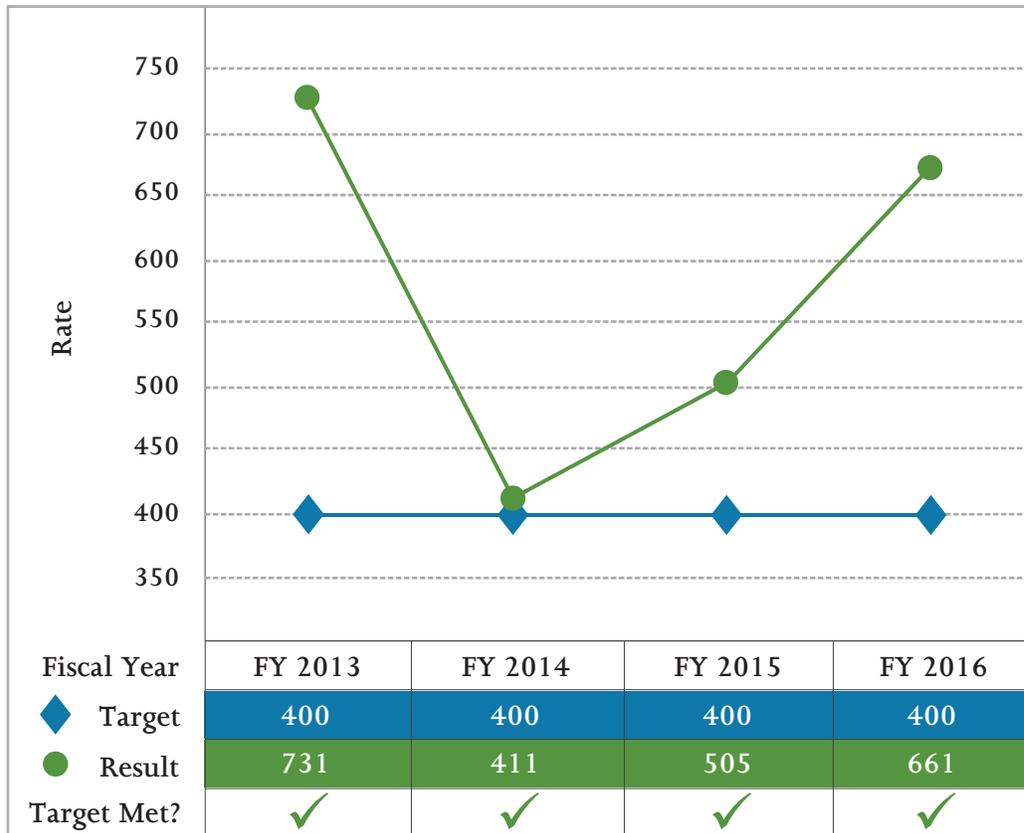


Explanation of FY 2016 Results: Although CBP maintained its FY 2016 outbound enforcement effort at levels similar to FY 2015, there were significant decreases in both the number of seizures and the average dollar value of the amount seized in FY 2016. This was due in large part to a significant decrease in very large seizures in FY 2016. This is a continuation of the general trend towards smaller seizure amounts observed over the past several years.

Corrective Action: CBP will continue to conduct risk-based outbound enforcement operations to identify and seize currency being transported out of the country illegally, and work with other law enforcement agencies and both local and international partners to identify and disrupt outbound smuggling activities.

Performance Measure 6: Number of smuggled outbound weapons seized at the ports of entry

This measure provides the total number of illegal weapons seized during outbound inspection of exiting passengers and vehicles, both privately-owned and commercial. Weapons are defined as pistols, rifle-shotgun combinations, rifles, revolvers, shotguns, disguised weapons, machine guns, submachine guns, or machine pistols. This includes assembled weapons as well as major pieces of weapons. Seizing weapons being smuggled for criminal purposes strengthens border security by preventing the movement of assault weapons and ammunition.



Explanation of FY 2016 Results: CBP conducts risk-based outbound enforcement operations to identify and seize weapons being transported out of the country illegally and works with other law enforcement agencies and both local and international partners to identify and disrupt outbound smuggling activities.



Goal 3: Enhance U.S. Economic Competitiveness by Enabling Lawful Trade and Travel

Advance U.S. economic competitiveness and promoting economic prosperity with our public, private, and international partners.

Objectives to Accomplish Goal Three – Enhance U.S. Economic Competitiveness by Enabling Lawful Trade and Travel

- Objective A – Reduce costs for the U.S. government and the trade and travel communities by streamlining processes in collaboration with public and private sector partners
- Objective B – Promote harmonization throughout ports of entry and other U.S. government agencies
- Objective C – Expand risk-segmentation through advanced technology to enable low-risk trade and travel

Objective A: Reduce Costs for the U.S. Government and the Trade and Travel Communities by Streamlining Processes in Collaboration with Public and Private Sector Partners

CBP continuously identifies and eliminates barriers to the flow of lawful cargo and passengers by collaborating with the private sector to leverage innovative technology and processes. By automating information collection and dissemination, CBP enhances data quality and streamlines risk-informed decision-making to expedite the flow of legitimate cargo and passengers. To ensure entry decisions are made quickly and accurately, CBP integrates systems and information databases with other U.S. agencies to validate visa eligibility and verify passports.

Entry/Exit Transformation (EXT) Office: This office enables CBP to process travelers with increased security and immigration integrity, and advances CBP towards meeting the Congressional mandate on biometric exit. The EXT Office uses a holistic assessment of operational processes, evaluates various technologies, and tests and deploys new biometric technologies while building on existing biographic data collection.



In FY 2016, the EXT Office launched two new biometric field tests to advance CBP's security screening and exit recording capabilities. During the Pedestrian Field Test at Otay Mesa from December 2015 to May 2016, CBP recorded biographic exit records and enrolled travelers into a biometric system that used facial and iris images to test the feasibility of using biometrics to verify entry and exit records. The biometric data is stored in a stand-alone database and will be used in testing for up to one year. After one year, the biometric data will be destroyed per the CBP Privacy Impact Assessment. For the Departure Information Systems Test that started on June 13, 2016, CBP began the implementation of a biometric air exit field trial that took live photos of travelers and compared them against the photos stored in CBP systems by utilizing the flight departure manifest.

Active Lane Management: This program is a CBP traffic management policy that establishes wait time targets for vehicle and pedestrian processing at all land border ports, adjusting lanes as necessary. This includes three types of lanes: Trusted Traveler lanes with the shortest wait times, Ready Lanes, and general lanes. When Trusted Traveler lane wait times are longer than expected, CBP redesignates other lanes. If Ready Lane wait times are more than half as long as general lanes, then general lanes will be redesignated as Ready Lanes. As of September 30, 2016, more than 200.8 million travelers crossed the land border via inbound vehicles. Of these, approximately 30.9 million crossed in Trusted Traveler lanes, 51.5 million crossed in Ready Lanes, and 118.4 million crossed in the general lanes.



In January 2016, the Mobile Passport Control (MPC) program was taken out of a test phase and CBP published the business requirements to the travel and tourism industry. During FY 2016, CBP deployed the MPC application to 15 additional airports (Fort Lauderdale, Dallas-Fort Worth, Newark, JFK, Orlando, Denver, San Jose, Minneapolis-Saint Paul, Dulles, Raleigh-Durham, Tampa, Boston, Baltimore-Washington, Houston-Bush, and Houston-Hobby) bringing the total number of airports with MPC to 20. The MPC application enables U.S. and Canadian travelers with an Apple iPhone or Android device to download the application, answer customs declaration related questions, submit passport information, and upload a photograph before inspection to expedite the inspection process.

Variable Message Signage: Variable message signs, positioned above each vehicle lane, enable CBP to better manage traffic flow by informing travelers of processing mode (Trusted Traveler, Ready Lane, and general), lane status (open or closed), and processing procedures and policies. CBP has deployed variable message signs to 41 land border ports of entry nationwide.

Pedestrian Reengineering: In FY 2016, CBP deployed kiosks to several land border ports of entry along the SWB that query pedestrian travel documents prior to inspection. At these locations, CBP launched pedestrian Ready Lanes for travelers with RFID travel documents. CBP also deployed variable message signs that provided travelers with information on proper kiosk use and lane designations to facilitate the crossing process.

CBP Mobile Program: This program facilitates the deployment of mobile solutions to officers, agents, and specialists for conducting mission operations. Mobile devices capture and query license plate images, enable document machine-readable zone swipes, enable cargo release at the point of inspection, and provide the real-time query results to officers and agents. During FY 2016, CBP supported the expanded deployment of the Enforcement Link Mobile Operations (ELMO) application suite which provides real-time tactical targeting data to field personnel via a tablet and smartphone. ELMO is used by all CBP frontline personnel and has helped intercept undocumented aliens, drugs, unreported currency, and weapons; improved the inspection process; enhanced the traveler experience by reducing wait times; and facilitated the reduction of trade dwell time.

Legal Frameworks for Trade and Travel: CBP's OT provides legal support, advice, and guidance for CBP trade operations and national border security operations. The trade community relies on these legal services, including guidance on tariff classification, valuation, marking, origin, import procedures, and navigation laws. CBP issues final administrative decisions and advice on major penalty and other civil enforcement matters, thus ensuring uniform and impartial application of enforcement laws while supporting legitimate trade. In its regulatory development role, CBP creates the legal framework that enables trade and border security programs to be established nationally.



**SUCCESS
STORY**

The President of the United States issued a Presidential Proclamation in FY 2015 for the modification of the harmonized tariff schedule of the United States primarily to implement the immediate or staged elimination of customs duties on the IT products covered by the December 2015 “Declaration on the Expansion of Trade in Information Technology Products” (ITA II). ITA II resulted from over three years of negotiations at the World Trade Organization (WTO) on expansion of the 1997 ITA. During that time, CBP attorneys provided technical advice to the U.S. Trade Representative and other WTO delegations that focused on defining the proposed descriptions of covered products. The modifications became effective on July 1, 2016.

Arrival and Departure Information System (ADIS): EXT also manages ADIS, which provides biographic entry and exit records as travelers cross through U.S. air, sea, and land ports of entry, and calculates the date at which a visitor should have left the United States. The system is used by all DHS elements involved in the immigration management enterprise, as well as DOS. It also supports the National Counterterrorism Center and in FY 2016, it implemented a number of system modifications and upgrades to enhance its data reporting and analysis capabilities.

**SUCCESS
STORY**

In February 2016, the EXT Office released its first country-by-country report of foreign visitors who overstayed in FY 2015. This was a critical achievement, as Congress has been calling for such a report for many years. The report covered B-1/2 category visitors, including VWP travelers.



Centers of Excellence & Expertise (CEE): The centers are located in field offices that operate as national ports of entry for processing trade activities. The centers employ a modern approach to trade operations that aligns CBP's trade component with current business models of the importing community. The centers strive to achieve transparency and visibility with shipments and products being imported. This means that all of a broker's trade transactions are being processed by one center which provides uniformity and predictability to the importer. CBP can then use that enhanced knowledge to strengthen enforcement nationally rather than only at a port. The following ten centers conduct all commodity-specific post-release trade activities nationwide:

- Agriculture and Prepared Products (Miami Field Office)
- Apparel, Footwear and Textiles (San Francisco Field Office)
- Automotive and Aerospace (Detroit Field Office)
- Base Metals (Chicago Field Office)
- Consumer Products and Mass Merchandising (Atlanta Field Office)
- Electronics (Los Angeles Field Office)
- Industrial and Manufacturing Materials (Buffalo Field Office)
- Machinery (Laredo Field Office)
- Petroleum, Natural Gas and Minerals (Houston Field Office)
- Pharmaceuticals, Health and Chemicals (New York Field Office)

Electronic System for Travel Authorization (ESTA): ESTA allows CBP to screen information provided by VWP travelers to see if an alien presents a security risk and is eligible for visa-free travel to the U.S. CBP requires airlines to verify ESTA status before boarding all VWP passengers. Travelers who are denied a travel authorization via ESTA can apply for a U.S. visa at the nearest U.S. Embassy or consulate. The ESTA website appears in English and 22 other languages. In February 2016, OFO launched a revised ESTA application that includes additional questions addressing the changes made to the VWP by the Visa Waiver Program Improvement and Terrorist Travel Prevention Act of 2015.

Trans Pacific Container Service Corporation (TraPac) Conveyor Radiation Portal Monitor System Operational Assessment:

In furtherance of the DHS mission to prevent nuclear terrorism, DHS partnered with a commercial port to deploy a new automated radiation scanning solution that supports the dual objectives of detecting radiological and nuclear material while facilitating the flow of commerce.

A collaborative effort between CBP and the Domestic Nuclear Detection Office (DNDO), with support from the Pacific Northwest National Laboratory (PNNL), spearheaded a public-private partnership with the Port of Los Angeles' TraPac to integrate, test, evaluate, and place into operation a new and innovative system for the TraPac Intermodal Container Transfer Facility on-dock rail solution. The system uses conveyors that transport cargo containers past Radiation Portal Monitor (RPM) detectors installed in fixed positions inside the automation area. Throughout the country, other on-dock rail terminals use mobile RPMs, which have a significantly higher cost of operation and maintenance.

Objective B: Promote Harmonization throughout Ports of Entry and Other U.S. Government Agencies

CBP standardizes processes across ports of entry to unify enforcement and improve the global economy with reduced transactional costs and an efficient movement of people. CBP operations complement private sector practices. This includes the Trusted Trader and Traveler programs that improve CBP's supply chain and information gathering to better identify low-risk cargo and passengers and expedite their cross-border movement.

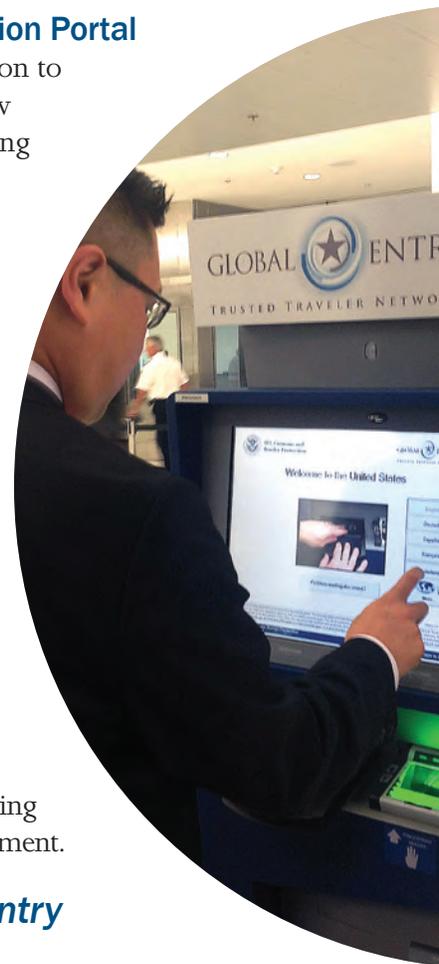
Strategies to Promote Harmonization throughout Ports of Entry and Other U.S. Government Agencies

Global Online Enrollment System (GOES): This system allows registered users to apply online for CBP TTPs. In FY 2016, CBP improved GOES to accept applications from German, United Kingdom, and Singapore citizens, in support of permanent Global Entry arrangements.

Automated Passport Control (APC): APC expedites the entry for U.S., Canadian, eligible VWP international travelers, and B1/B2 or C1/D visa holders via automated processing through CBP's primary inspection area. APC is a free service and does not require pre-registration or membership. Instead of filling out a paper customs declaration form, eligible passengers use the self-service APC kiosks for electronic submission of customs declaration and biographic information. Travelers scan their passport, take a photograph using the kiosk, and answer a series of questions verifying biographic and flight information. This reduces waiting and congestion and speeds processing.

Travel and Tourism Initiatives: Supporting the President's Travel and Tourism Strategy, CBP continues to transform and advance its business procedures to create a more welcoming, interactive, and secure arrival. Many projects have been completed on the airport action plans CBP developed in partnership with the travel and tourism industry for airports with top international volume. Stakeholders include representatives from airlines, airports, hotels, theme parks, and visitor and convention bureaus. Stakeholders also include local elected officials, Congressional representatives, and representatives from Federal agencies including DHS and the U.S. Department of Commerce. CBP used stakeholder input to develop infrastructure and airport improvements, including:

- Automated Passport Control kiosks
- Mobile Passport Control
- Growth in Trusted Traveler programs
- Expanded public-private partnerships
- Improved signage and multimedia



Objective C: Expand Risk-Segmentation through Advanced Technology to Enable Low-Risk Trade and Travel

To expedite processing legitimate passengers and cargo, CBP automates how goods and travelers are evaluated according to the risks they pose. This includes analyzing border traffic using accurate risk assessments for every traveler and cargo shipment that crosses the U.S. border. Automation speeds trade and travel, increases information sharing and collaboration, and more quickly and easily identifies high-risk cargo and passengers.

Strategies to Expand Risk-Segmentation through Advanced Technology to Enable Low-Risk Trade and Travel

Advance Passenger Information System (APIS):

APIS is the most critical system CBP uses to identify dangerous individuals entering or departing the U.S. Through APIS, CBP receives biographical and travel documentation on passengers and crew arriving in and departing from the U.S. by air, sea, and in some cases, land (from commercial bus and rail operators). CBP generally receives this data before passengers and crews depart, allowing CBP to vet them against government databases. Vetting includes automated law enforcement queries that seek matches to multi-agency law enforcement alerts, non-immigrant and immigrant visas, and historical databases. APIS also uses ESTA information to send carriers interactive messages with the traveler's ESTA status for boarding decisions. In FY 2016, CBP vetted over 390 million total passengers and crew through all modes of transportation for which APIS data is received, and referred over 34 million to secondary inspection for further processing.

Admissibility Review Office (ARO):

This office works with DOS and other law enforcement agencies to determine whether inadmissible aliens can legally travel as nonimmigrants with waivers under the Immigration and Nationality Act. ARO balances each alien's reason(s) for travel with the seriousness of their ineligibility, weighed against any benefit or potential risk if CBP were to admit the alien. ARO decides all high profile "seat of government" nonimmigrant waivers, and processes and adjudicates all waiver applications submitted directly to CBP by eligible individual international travelers. In FY 2016, ARO completed decisions on 31,735 nonimmigrant waiver recommendations.



Fraudulent Document Analysis Unit (FDAU): The FDAU serves as the central location for analysis of all fraudulent documents seized by CBP nationwide. FDAU manages the CBP Fraud Prevention Program, providing training, equipment, and communication that increases an officer's ability to detect phony documents. CBP inputs and verifies travel and identity documents using Edison Travel Documents (TD), a global database in partnership with the Netherlands, Canada, Australia, United Arab Emirates, and the International Criminal Police Organization. In FY 2016, the FDAU retrieved 24,919 fraudulent documents.

Automated Commercial Environment (ACE): ACE replaces two aging and expensive legacy systems, the Automated Export System (AES), which was replaced in May 2016, and the Automated Commercial System (ACS), soon to be replaced in 2017. ACE is providing CBP personnel with information to better enable compliance, target enforcement issues, and increase overall operational effectiveness.

CBP is working in close coordination with our partner government agencies to complete the single window for international trade by the end of December 2016, in line with a 2014 Presidential Executive Order. By creating a single window for the government to interact, manage, and oversee the import and export data, ACE is providing end-to-end visibility of the entire trade cycle.

As of July 2016, filing in ACE is mandatory for all electronic entries and corresponding entry summaries, including those involving quota. Since August 2016, the percentages of entries and entry summaries filed in ACE reached 100 percent. The successful transition is attributable to a system that works and a system that trade partners are using successfully.

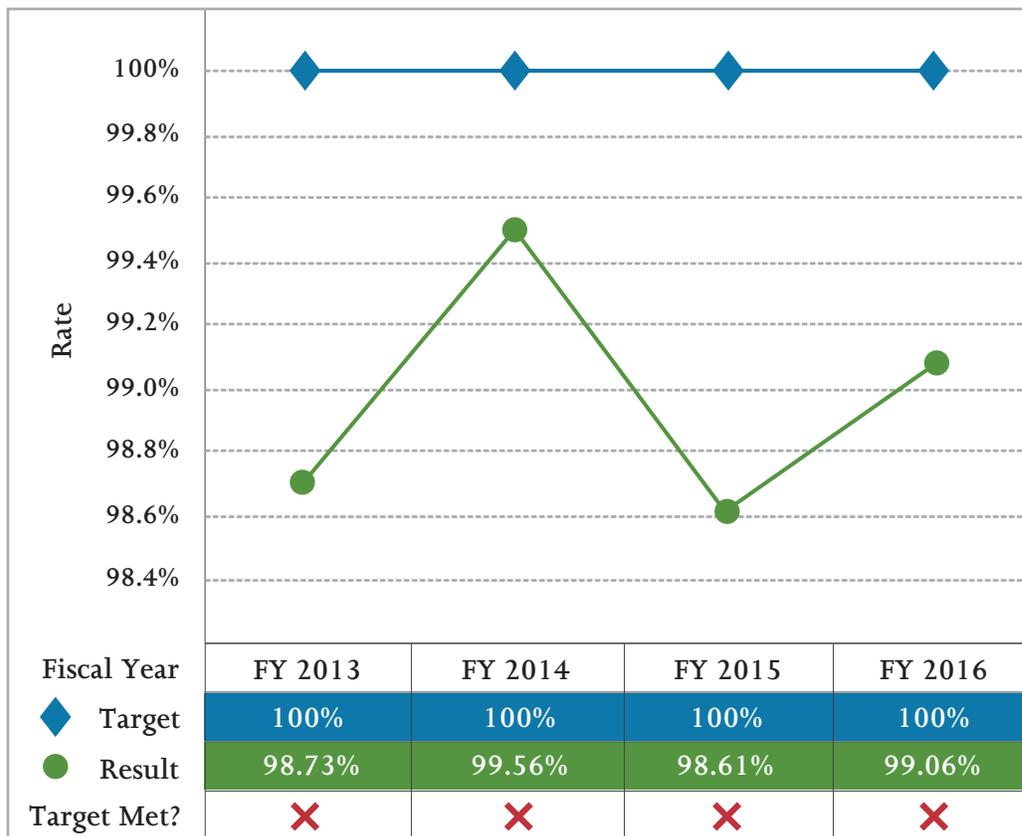
Inbound Radio Frequency Identification (RFID) Saturation: Used in CBP Ready Lanes, RFID documents reduce processing time when used with CBP's active lane management. From January 2008 through September 30, 2016, more than 42 million RFID-enabled travel documents have been issued. As of September 30, 2016, 44.3 million vehicles crossed the border using RFID-enabled travel documents.



Results for Goal 3: Enhance U.S. Economic Competitiveness by Enabling Lawful Trade and Travel

Performance Measure 7: Percent of import revenue successfully collected

This measure estimates the collected duties, taxes, and fees (called net under-collection of revenue) 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 total collected revenue plus the estimated net under-collected revenue based on trade violations. The estimated revenue gap is a statistical calculation of potentially uncollected duties (the difference between estimated under-collection and overpayment) based on statistical sampling.

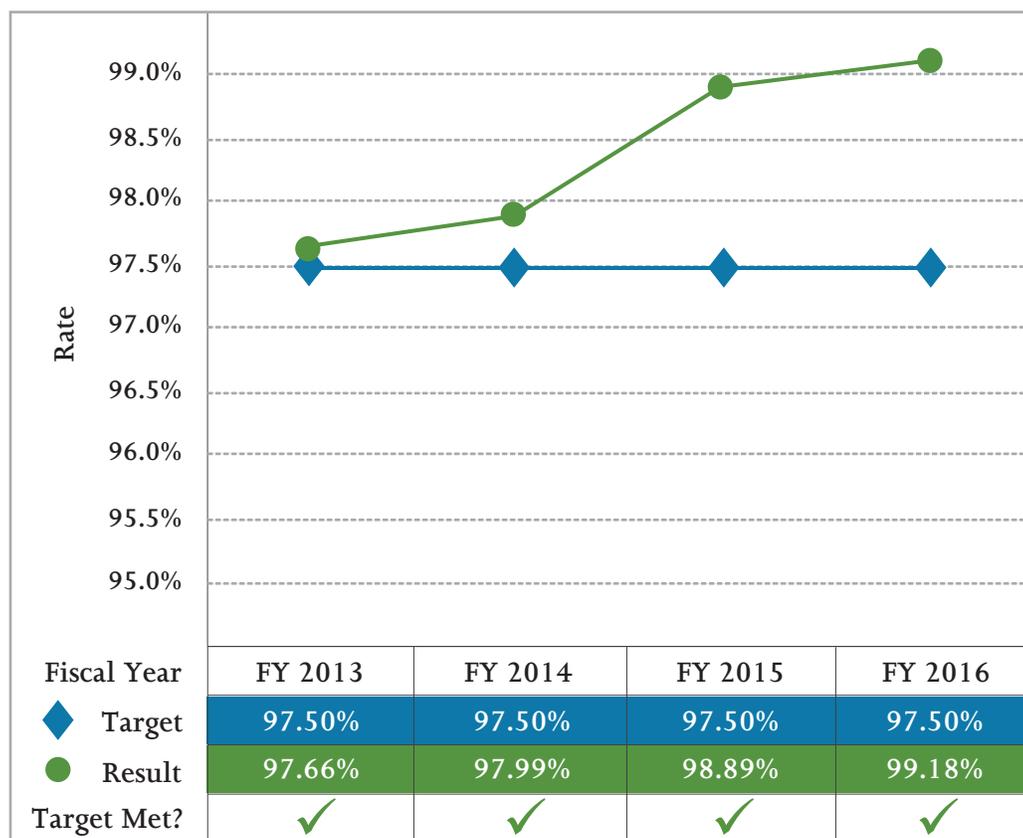


Explanation of FY 2016 Results: To effectively manage the \$2.4 trillion in imports entered into the customs territory, CBP deploys a multi-pronged approach to trade facilitation and enforcement: informed compliance, stakeholder engagement, structured summary targeting, and the issuance of punitive administrative penalties or judicial forfeiture for the most egregious violators. In spite of CBP's efforts, the only way to successfully collect 100 percent of all collectable revenue would be to review all 160 million lines of commercial merchandise entered into the customs territory.

Corrective Action: To improve results for next year, CBP will expand informed compliance and stakeholder engagement initiatives through trade symposiums and trade association roundtables. CBP will also improve structured summary targeting effectiveness by incorporating new automated risk models and anomaly detection capabilities.

Performance Measure 8: Percent of imports compliant with applicable U.S. trade laws

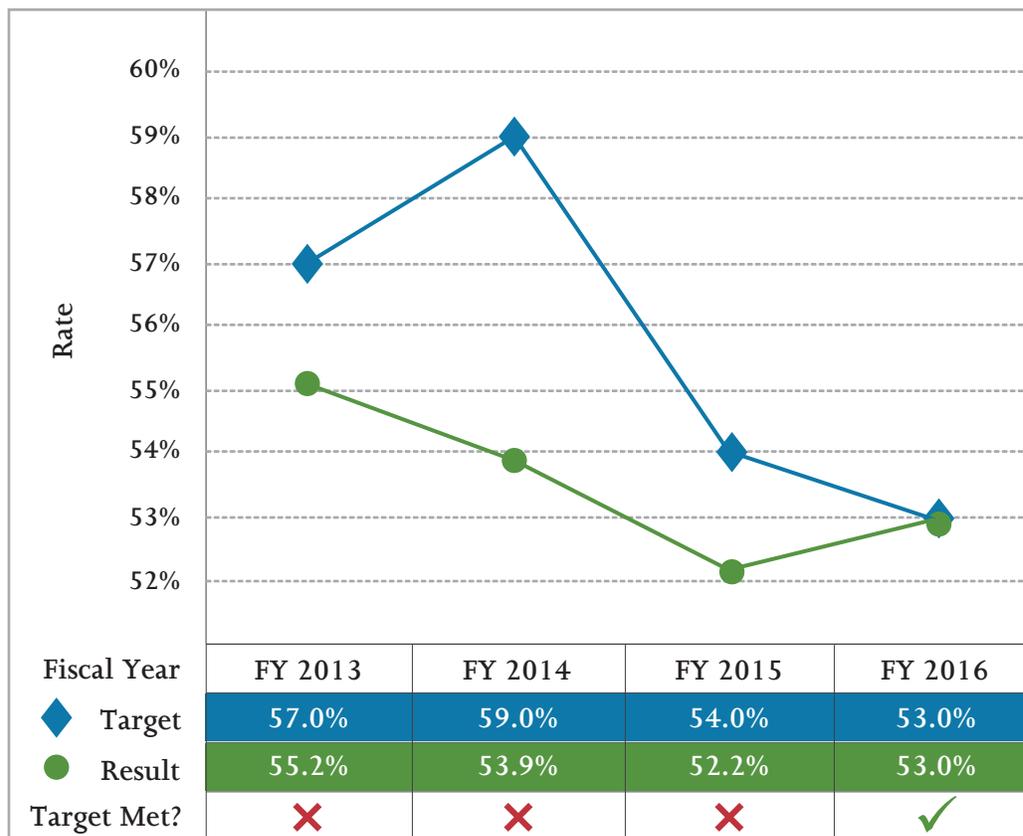
This measure reports the percent of imports that are compliant with U.S. trade laws, including customs revenue laws. Ensuring that all imports are compliant and free of major discrepancies allows for lawful trade into the U.S.



Explanation of FY 2016 Results: To effectively manage the \$2.4 trillion in imports entered into the customs territory, CBP deploys a multi-pronged approach to trade facilitation and enforcement: informed compliance, stakeholder engagement, structured summary targeting, and the issuance of punitive administrative penalties or judicial forfeiture for the most egregious violators.

Performance Measure 9: Percent of cargo by value imported to the U.S. by participants in CBP trade partnership programs

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 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.



Explanation of FY 2016 Results: CBP continuously strives to increase active participation of importers in CBP trade partnership programs to ensure the most effective and efficient supply chain security and expedite trade, and hence to increase the percent of cargo by value imported to the U.S. by participants in CBP trade partnership programs.



Goal 4: Promote Organizational Integration, Innovation, and Agility

Mature and develop CBP's culture, capabilities, and business processes to remain agile and adaptable in supporting operational requirements to maintain efficiency and effectiveness.

Objectives to Achieve Goal Four – Promote Organizational Integration, Innovation, and Agility

- Objective A – Mature CBP's strategic resource management framework
- Objective B – Optimize CBP's organizational structure to ensure agile and efficient operations
- Objective C – Strengthen CBP's culture of unwavering integrity and professional growth
- Objective D – Advance CBP mission effectiveness through transformative technologies and innovative business practices

Objective A: Mature CBP's Strategic Resource Management Framework

CBP aligns its programs to meet ever-changing domestic and global conditions and enhances performance through the planning, programming, budgeting, and accountability business structure. This structure provides a strategy for resource allocation and assesses the effectiveness of meeting mission objectives. CBP's shared mission and capabilities-based portfolios better integrates all facets of this structure throughout the agency.

Strategies to Mature CBP's Strategic Resource Management Framework

AMO Vision 2025: AMO implemented its Vision 2025, aligning the organization with CBP's Vision and Strategy 2020, the DHS Strategic Plan FY 2014-2018, and the Southern Border and Approaches Campaign.

CBP Reuse of DoD Technology: As part of the CBP DoD technology reuse project, approximately 2,165 items, at a market value of over \$84.8 million, have been transferred to and deployed by CBP to support agent/officer safety, contraband and WMD detection, and border surveillance. Many of these technologies have addressed critical gaps in CBP surveillance. The 2016 National Defense Authorization Act, recently passed by Congress, allows for DHS priority over other law enforcement agencies in claiming excess DoD technology for border security, counter-drug activities, and counter-terrorism activities.

Strategic Air and Marine Plan (StAMP): AMO completed this 10-year plan to unify and integrate air and marine assets and people; enhance border security and surveillance; recapitalize aging aviation and marine assets; create a more flexible and responsible air and marine force; and continue support for traditional missions, especially for HSI and drug source, transit, and arrival missions under the integrated command of JIATF-South.

Assessment of the Acquisition Workforce: In FY 2016, OA assessed the acquisition workforce to determine the distribution and prevalence of staffing shortfalls and technical qualifications in nine disciplines. The office also launched a ground-breaking initiative to identify and fill more than 137 critical acquisition vacancies for the major CBP investments. This effort hopefully will lead to a qualifications-based workforce building program while balancing the long-term development of trained and experienced acquisition professionals.



Objective B: Optimize CBP's Organizational Structure to Ensure Agile and Efficient Operations

CBP continues to meet complex operational challenges through agility and innovation. The Agency combines different operations in its organizational design to respond to uncertainty in the external environment. The design is more than an organizational structure or strategic plan – it includes all formal and informal systems and processes. By defining and evolving the best lines of authority, communications, responsibilities, and functions, CBP continuously streamlines command and control over daily operations.

Strategies to Optimize CBP's Organizational Structure to Ensure Agile and Efficient Operations

Enterprise Agile Project Management: CBP's OIT continues to implement agile project management practices to support the Federal Chief Information Officer's (CIO's) 25-Point Implementation Plan to Reform Federal Information Technology Management. These efforts help drive common standards and practices and support streamlined processes to support CBP's IT infrastructure. In an agile organization, integrated product teams actively engage customers to deploy IT systems in smaller and less risky increments. In shifting to agile, CBP improved cost management and better aligned IT products to the mission.

CBP Training: CBP's OTD provides formal training through several Academies/Training Centers and divisions, delivering instructor-led classroom training and online training through CBP's performance and learning management system. OTD develops and implements CBP's annual training plan, and provides management and executive development programs and basic and advanced training to support the workforce.

Mobile Intellectual Property Rights Enforcement Team (MIPET): To improve the agility of IPR trade enforcement operations, CBP developed MIPET, a group of mobile IPR subject matter experts who partner with various CBP field offices to quickly identify and seize goods that violate U.S. intellectual property laws.



SUCCESS STORY

One of the most successful MIPET missions during FY 2016 was Operation Rein-In III. MIPET, working with CBP's Electronics CEE and the Area Ports of Cleveland and Los Angeles, seized nearly 203 shipments of counterfeit consumer electronics, optical media, and semiconductors with an MSRP of \$1.4 million.



Defense Acquisition University (DAU) Study Executive Assessment Team (SEAT): The 2015 DAU study of CBP’s acquisition program recommended a number of changes to improve the efficiency and effectiveness of the Agency’s acquisition management organization. In response to this study, senior CBP leaders with expertise in financial management, human capital, training, IT, legal practice, and acquisition disciplines, came together in a spirit of collaboration and innovation. A charter establishing the SEAT was completed in the Spring of 2016. The SEAT reviewed 66 recommendations issued by DAU to assess their priority, feasibility, and impact. This long-term effort exemplifies the best of CBP’s willingness to address its challenges and marshal its most valuable resource — its employees — to build a better, stronger organization and advance its mission.

Treasury Invoice Processing Platform (IPP): In July 2015, OMB issued a memorandum requiring Government agencies to process all commercial invoices electronically by the end of FY 2018. In FY 2016, OF implemented the Treasury IPP, which is a secure, web-based service that increases reliability, accuracy, and security of payments between the Government and commercial vendors. CBP’s financial system, SAP, integrates the processes to support this service. IPP provides enhanced visibility for CBP and vendors into the status of invoice payments, helps to reduce the frequency and amount of late payment penalties, and reduces administrative burden and costs to CBP and taxpayers by providing for paperless processing.

Objective C: Strengthen CBP’s Culture of Unwavering Integrity and Professional Growth

CBP develops a collaborative culture to ensure continued delivery of its mission to the American people. This includes attracting, hiring, continually developing, and retaining a highly qualified workforce with an enduring commitment to CBP’s highest ideals, especially integrity. CBP provides training and dynamic growth opportunities to strengthen professional skills and capabilities throughout its workforce.

To retain high-caliber employees and ensure effective programs, CBP continues to build a diverse workforce, develop career paths, promote work-life programs, reward performance, encourage employee engagement, and provide personal, professional, and organizational growth opportunities.

Strategies to Strengthen CBP’s Culture of Unwavering Integrity and Professional Growth

Basic Training for Border Patrol Agents: OTD, working with USBP, completed the first convening of the new Border Patrol Agent basic training program (Session 1058) at the end of FY 2016. The redesign expanded basic training from 66 to 117 days. Some of the significant improvements include integration of Spanish throughout the program, additional focus on use of force de-escalation and judgment, and critical resiliency issues. Depending on resourcing/funding levels, it is anticipated that this new course will be fully implemented by the end of FY 2017 or early FY 2018.

Engagement Center of Excellence (ECoE): In FY 2016, CBP established an approach that codified a plan to improve engagement at both the headquarters (HQ) and office levels based on Federal Employee Viewpoint Survey (FEVS) data. To oversee and guide these efforts, CBP established the CBP ECoE to bring engagement to the local level, advance corporate issues, and inspire leadership development.

Media Division: CBP increased transparency and accountability to the public, most notably releasing information on use of force incidents. In June 2015, OPA updated CBP’s standard operating procedures on releasing this information where use of force resulted in death or serious injury. The new standard operating procedures call for the release of an initial public statement within one hour of headquarters notification. A second statement, which may be a press briefing, must occur within 12 hours of the initial statement to make pertinent information available to the public. In FY 2016, OPA and its component partners successfully followed these new standard operating procedures 15 times to provide timely information on use of force incidents.



In June 2016, the CBP ECoE conducted a successful campaign to promote increased participation in the Office of Personnel Management-administered 2016 FEVS that ran May 5 to June 16, 2016. The ECoE developed cascading communications and identified field level FEVS champions. They promoted the campaign, developed innovative multi-media promotions, and provided near real-time reporting on participation rates. The CBP unadjusted participation rate increased from the 2015 unadjusted rates, and exceeded the government-wide participation average for the first time ever.

Visual Communications: OPA provides video production expertise, support, and operations to the entire Agency as well as to DHS headquarters. During FY 2016, OPA supported more than 70 programs from various CBP offices with video products on suicide prevention, the CBP mentoring program, Global Partnerships for Global Trade, UH-60 Blackhawk helicopter safety, and a corporate video that explains CBP’s complex missions. To fulfill the OPA mission to share CBP’s story with the broadest possible audience, in FY 2016, the OPA Visual Communications Division posted 43 OPA-produced videos to the Defense Video Imagery Distribution System for national and international distribution. Videos included coverage of the valor memorial ceremony, Tanzania canine detector program, and CBP Super Bowl security.



OPA’s ongoing video feature series “CBPeople” spotlights CBP employees’ achievements both on and off duty while promoting positive employee morale, integrity, and personal growth. In FY 2016, OPA produced eight features about interesting off-duty exploits of CBP personnel Agency-wide.

Border Patrol Agent Pay Reform Act (BPAPRA): In FY 2016, OIT made application changes to the CBP Overtime Scheduling System (COSS) to align it with the BPAPRA statutory and regulatory requirements. BPAPRA created a new overtime pay program under Title 5, Code of Federal Regulations, Part 550 for Border Patrol agents. It replaced Administratively Uncontrollable Overtime (AUO) and Fair Labor Standards Act (FLSA) overtime for Border Patrol agents. This new law better aligns work schedules with operational needs while fairly compensating Border Patrol agents for overtime. Payments under this new provision became payable beginning with the first pay period in January 2016.

Assault and Use of Force Reporting System (AUFERS): In FY 2016, OIT implemented changes to the existing use of force reporting system to deliver a modern assault and use of force reporting system. OIT, working with the Use of Force Center of Excellence and representatives from each operational office in CBP, is developing phase one of the vehicle pursuit system in AUFERS for FY 2016.

Joint Integrity Case Management System (JICMS): In FY 2016, OIT made enhancements to the existing JICMS to support OPR's evaluation/documentation for OPR case management to assess possible replacement for the existing JICMS. As part of that process, the JICMS team identified the gaps between the old system and new required capabilities.

Did You Know?

USBP is conducting a comprehensive human capital study to understand and address declines in employee engagement, as indicated by the FEVS. To help understand the root causes of these issues, USBP issued a contract to analyze FEVS data from 2011-2015 and conduct interviews with USBP field personnel (agents, professional staff, and senior leaders).



USBP introduced a modest gallery in its headquarters for displaying and honoring Border Patrol heritage and history. The gallery includes a special memorial dedicated to the memory of agents who died in the line of duty. This small space was part of the renovation of USBP office space in the Ronald Reagan Building. During this year's Police Week ceremonies, families of these honored agents visited the memorial for the first time and were able to reminisce about their loved ones in a private, respectful, and more intimate space.

Special Emphasis Recruitment Teams (SERT): HRM established SERT, an agency-wide diversity recruitment strategy. In addition, HRM carried out a targeted strategy to recruit a workforce that reflects the diversity of the relevant, civilian labor force for hiring veterans, minorities, and women in frontline positions and individuals with disabilities. In FY 2016, HRM conducted over 4,400 recruitment events that included 207 events focused on females, 1,150 on veterans, 2,255 on diversity, and 57 on disability. These events increased the rate-of-hire for females (32 percent), those identifying themselves as Hispanic or Latino (32 percent), those identifying themselves as Black or African American (11 percent), and those with disabilities (6 percent).

Entity Level Controls (ELC): ELCs are management controls that reflect a broad range of control principles, including an organization's inherent culture, values, ethics, attitudes, awareness, and the actions of management and those charged with governance around the entity's internal controls. In FY 2016, OF led an initial baseline ELC assessment, which included interviews with 18 CBP senior leaders and an assessment of the effectiveness of CBP ELCs across 17 principles of internal control. The results of this baseline assessment and additional assessment activities planned for FY 2017 help shape CBP priorities for strengthening controls in select principles.

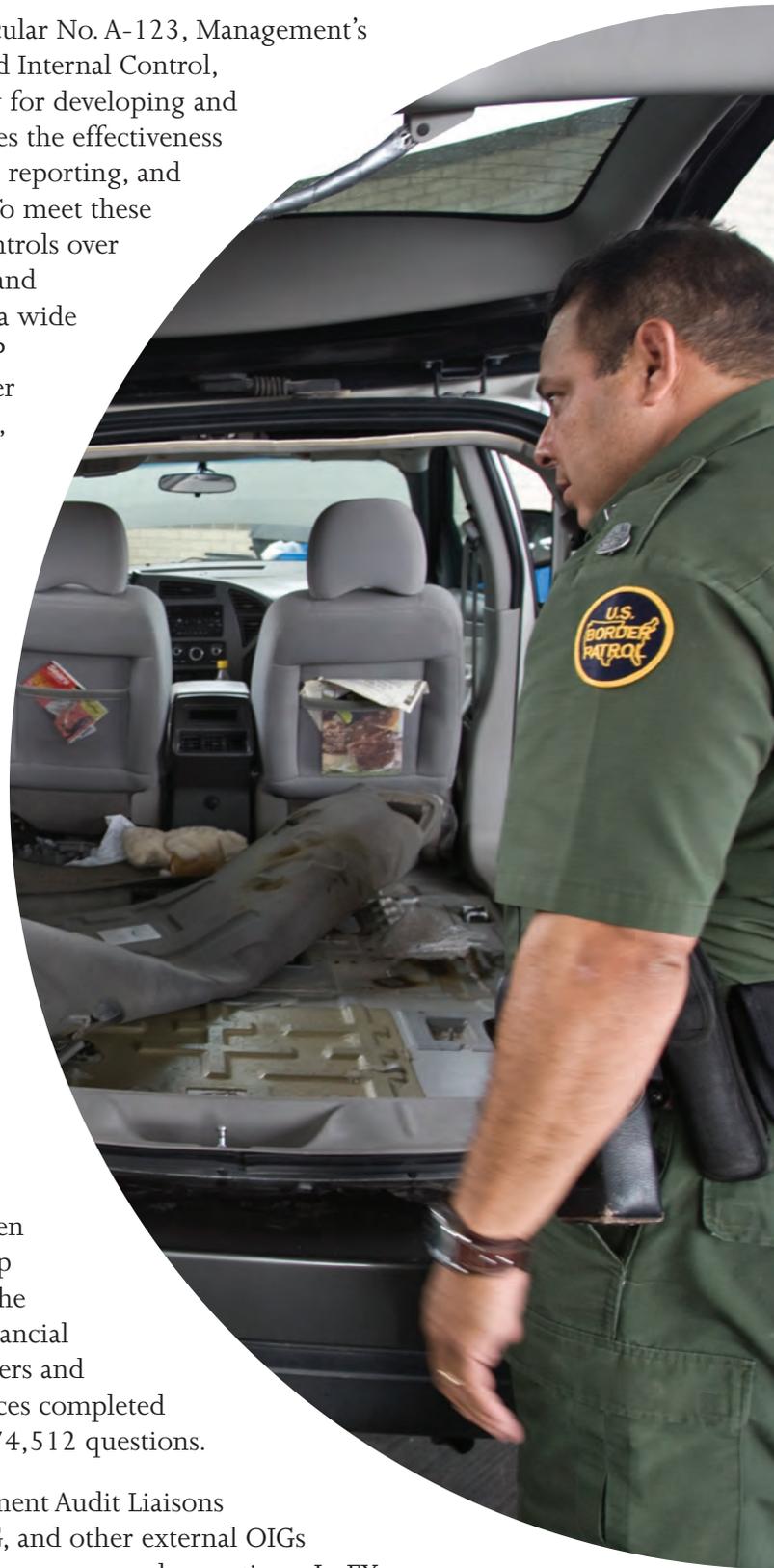
CBP Internal Control Assessments: OMB Circular No. A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control, explains management’s fundamental responsibility for developing and maintaining effective internal control that promotes the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. To meet these requirements, OF leads assessments of internal controls over financial reporting – including testing the design and operating effectiveness of internal controls – over a wide range of business processes spanning multiple CBP offices. In FY 2016, OF completed assessments over every major financial business process. In addition, OF developed and began using structured risk assessments across major business processes to guide the scope and extent of assessments.

Management Inspections Program:

As part of its oversight role to promote the integrity, effectiveness, and efficiency of CBP programs and operations, the Management Inspections Division (MID) performs inspections that complement operational monitoring activities performed by CBP offices. The division assists leadership in strengthening operations and management and provides timely, objective, and reliable information and analysis concerning the effectiveness, integrity, and performance of CBP programs, operations, and offices.

Self-Inspection Program (SIP): CBP managers and supervisors conduct annual self-assessments to verify operational, financial, and administrative functions are working properly. These assessments promote management accountability and strengthen the oversight of programs and operations, and help CBP meet federal internal controls established by the FMFIA, OMB Circular No. A-123, and the DHS Financial Accountability Act. In FY 2016, over 1,865 managers and supervisors at 686 CBP headquarters and field offices completed 14,410 self-inspection worksheets and answered 74,512 questions.

Audit Management and Liaison: MID Component Audit Liaisons (CALs) serve as CBP’s liaison to GAO, the DHS OIG, and other external OIGs providing oversight for audits and reviews of CBP programs and operations. In FY 2016, CBP had 197 ongoing GAO and OIG audits. Of these audits, GAO started 47 new audits (38 audits and 28 audit reports were carried over from previous years) and issued 40 reports containing 8 new recommendations. OIG started 31 new audits (26 audits and 27 audit reports were carried over from previous years) and issued 22 reports containing 23 new recommendations. As of the end of FY 2016, CBP had 106 open recommendations.



Objective D: Advance CBP Mission Effectiveness through Transformative Technologies and Innovative Business Practices

CBP anticipates and prepares for future organizational requirements by collaborating with partners and promoting an entrepreneurial spirit. CBP implements innovations – transforming business practices to be more forward-looking and streamlined – to reduce costs for greater return on investment to the American people. This includes implementing agile project management and reducing burdensome bureaucratic protocols.

Strategies to Advance CBP Mission Effectiveness through Transformative Technologies and Innovative Business Practices

Camera Technology: On November 12, 2015, Commissioner Kerlikowske announced his decision to expand CBP’s camera use and testing body-worn cameras during law enforcement operations such as checkpoints, vessel boarding and interdictions, training academies, and outbound operations at ports of entry, as well as mobile camera options in vehicles. While CBP already makes extensive use of cameras in the border environment, technology is constantly evolving and CBP is committed to testing durable new cameras that may work with CBP’s operational requirements. Commissioner Kerlikowske also released the body-worn camera working group feasibility study and requested a review of existing fixed cameras to identify where more cameras are necessary at and between the ports of entry.

Automated Single-Crossing User Fee Payment Option Deployed: CBP requires all trucks crossing into the United States from Canada or Mexico to pay a user fee to offset border inspection costs. Carriers or their agents are able to make single-crossing user fee online payments through the decal/transponder online procurement system website. The mobile-friendly website design also allows users to pay online using their smartphones. To further reduce fuel consumption and waiting, CBP began a pilot program in FY 2016 that enables commercial trucks to prepay the single-crossing user fee online prior to arriving at a port of entry. The pilot is being conducted initially at the Buffalo, Detroit, and El Paso ports of entry. After a 90-day evaluation, if successful, the pilot will be expanded nationwide and will last for approximately one year.

Commercial Truck Automated Wait Time Solution Using RFID Technology: In June 2014, in response to a GAO recommendation, CBP partnered with the Federal Highway Administration and Texas A&M Transportation Institute to leverage the use of an existing RFID-based solution to cost effectively measure standardized, automated commercial vehicle wait times at seven crossings along the southern border between the United States and Mexico. The seven crossings (Veterans Bridge, World Trade Bridge, Colombia Solidarity Bridge, Bridge of the Americas, Yselta/Zaragosa Bridge, Pharr-Reynosa International



Bridge, and Camino Real International Bridge) cover a majority of the commercial vehicle crossings between Mexico and Texas. CBP has funded the initiative through FY 2017 in order for DHS, Science and Technology Directorate to perform analysis on the accuracy and reliability of the RFID-generated commercial wait time data at the ground level. If deemed accurate and reliable, CBP will develop protocols to automatically update the CBP border wait time website in near real-time by the end of FY 2017.

Automated Scheduling Tool (AST): The goal of the AST project is to transform the current manual, time-consuming CBP officer and agriculture specialist scheduling process by using software that can be configured for all operational environments within OFO. The software is license based, and, therefore, can be expanded to accommodate the current OFO workforce as well as any future workforce surge. Using AST to schedule personnel has the following benefits: scheduling can be performed according to the complex requirements of the collective bargaining agreement; reduced dependence on COSS; and reducing the number of CBP staff required for manual scheduling and returning them to mission critical functions.

AST is part of the COSS Transformation Initiative (CTI), the goal of which is to ensure that personnel are scheduled effectively, paid accurately, and CBP is reimbursed appropriately through any related partnership. On June 6, 2016, a contract was awarded to make AST available in the San Diego Field Office and to expand the pilot to Miami International Airport, the Port of Buffalo, and the Port of El Paso. Additionally, on September 30, 2016 a contract was awarded for Phase 1 of an enterprise rollout which will make AST available to all ports in the Buffalo, El Paso, Miami, New Orleans, and San Francisco Field Offices.

Resource Optimization Strategy: This strategy improves business processes, identifies staffing requirements, and explores alternative funding strategies to increase revenue. This includes CBP's workload staffing model, a data-driven tool to identify staffing requirements by accounting for the processes, personnel, and time required of CBP officers to accomplish an operation. It estimates future staffing requirements for new or enhanced facilities, technology deployments, and growth in trade and travel. CBP continues to pursue alternative sources of funding through the reimbursable services program and the donation acceptance program.

Joint Requirements Integration and Management System (JRIMS) Gatekeeper: Operations Support has the responsibility to function as the CBP Gatekeeper. The Gatekeeper serves as the central interface with DHS for all capability analysis, as well as joint requirements development and its management products. It ensures CBP's equities are fully represented in all capability analysis and requirements documents submitted to and/or from CBP. This enhancement of executive decision-making is critical to ensure DHS and CBP are making prioritized investments.





Social Media Initiatives: OPA uses social media to share CBP's story with a broader audience. Twitter continues to be CBP's most productive social media platform, growing to more than 108,000 followers, an almost 18 percent increase over FY 2015. CBP Twitter followers have retweeted CBP's tweets more than 16,000 times and liked CBP's tweets more than 21,800 times. Tweets at @Customsborder have been in the Top 50 most engaging government tweets as reported by Measured Voice more than 32 times in FY 2016. CBP Instagram also gained more than 9,000 new followers in FY 2016, a 457 percent gain. CBP's Instagram posts received more than 90,000 likes and 1,400 comments in FY 2016, which averages to approximately 215 likes and 3 comments per post, a 95 percent increase in likes per post over FY 2015. Social media also directs traffic to CBP's website, generating more than 29,000 click-throughs to CBP.gov in FY 2016. In addition to Instagram and Twitter, CBP has a presence on LinkedIn, Flickr, YouTube, and the Defense Video and Imagery Distribution System.

Television and Motion Picture Division:

OPA connects CBP with the television and motion picture industry to brand the agency, increase employee pride and morale, and assist recruiting. By informing the public about CBP rules, regulations and procedures, the agency supports public compliance. Although there are no statistics on how many job applicants CBP generates from commercial programming, reports from CBP field staff cite many potential applicants whose interest was piqued by what they observed in commercial entertainment. Each year, private industry spends over \$10 billion on product placement. The Army, Navy, Air Force, and Coast Guard have large budgets and staffs to accomplish what the CBP Office of Television and Motion Pictures is doing at little cost to the Agency.

CBP Cloud Computing Environment (C3E): CBP actively retires obsolete data center technology (such as legacy mainframe), and invests in field IT infrastructure to improve availability, reduce costs and risk, and deploy more capable computing and mobile capabilities. These activities started in FY 2014 and will continue. A key milestone will be retirement of the legacy mainframe system in FY 2017. Additionally, from FY 2017 through FY 2019, OIT will be working on migrating to the public cloud, where CBP can leverage the cost savings and high availability benefits of the Federal Risk and Authorization Management Program (FedRAMP) of cloud providers. This will enable OIT to provide faster and more flexible computing as demand from CBP’s internal and external user community increases (or decreases).

**SUCCESS
STORY**

OIT is using a FedRAMP cloud service to provide a publicly accessible dashboard for ACE. Although the work is still in progress, it is part of an ongoing effort to transparently present key availability and business metrics to members of the international trade community, CBP partner agencies, software developers, and the general public. An early preview of the dashboard is available on <https://acedashboard.cbp.dhs.gov>.

Identity, Credentialing, and Access Management (ICAM): CBP’s Enterprise ICAM program assists CBP and other DHS components in meeting federal regulations for highly secure access management, such as Homeland Security Presidential Directive 12 (HSPD-12), commonly referred to as personal identity verification card access. In addition to security compliance improvements, the ICAM program simplifies the user’s experience when accessing applications, tools, or systems integrated with ICAM. Currently, 73 different applications and tools use ICAM’s single sign-on capabilities, with a user community that includes CBP, ICE, DHS-HQ, and other DHS components. Users can now simply log into their network-connected work stations and access those applications without inputting another username and password. During FY 2016 and 2017, the ICAM program will be introducing more capabilities such as digital signatures for encrypting email messages, thereby strengthening security for communications within the department.

CBP Cyber Security Operations Center (CSOC): The CSOC was chartered to prevent, detect, contain, and eradicate cyber threats to CBP networks through continuous monitoring, intrusion detection, and protective security services. The center is never closed. It provides network monitoring for security events; security event analysis; access controls; remote access control; computer security incident response and management; vulnerability assessment; security administration; cyber intelligence support; intrusion analysis; and classified incident handling. These efforts include, but are not limited to, monitoring, detecting, scanning, recording, auditing, analyzing, investigating, reporting, remediation, coordination, and tracking of security-related activities within the CBP infrastructure.



**SUCCESS
STORY**

USBP stations, checkpoints, and other facilities are supported by OFAM's FM&E, which provides real property construction, leasing, and maintenance for USBP facilities in sectors spanning the borders. In FY 2016, HQ USBP logistics staff worked closely with FM&E to establish cross-component visibility of service delivery results. This visibility includes regular teleconferences that bring together USBP sector directors of logistics and FM&E leadership to discuss solutions to problems; regular reporting of performance metrics so that problem areas can be addressed together and outstanding performance can be used as best practices; and cross-component access to the TRIRIGA® database that shows real-time execution and status of maintenance and repair projects at USBP facilities. This coordination will help improve and standardize business practices and promote a team effort.

DHS Fuel Management Initiative: CBP is leading the DHS fuel management initiative. Using fuel and telematics technology, approximately 17,800 vehicles from DHS partnering components and the Federal Law Enforcement Training Center Georgia, Puerto Rico, and along the Southwest border will share fuel facilities. DHS projects that the program will save \$2.4 million per year through reduced commercial fuel purchasing, reduced sales tax, improved fuel efficiency, automated collection of vehicle metrics and maintenance scheduling, reduced vehicle acquisition costs, and simplified reporting.

Revenue Modernization: CBP collects more than \$44 billion annually in revenue. Revenue Modernization is an OF multi-year initiative to create efficiencies for CBP and the trade and travel communities by transforming – through automation and centralization – the collection, analysis, and reporting of this revenue. Upon completion, Revenue Modernization will: 1) transition field collections out of the ports of entry to enable CBP Officers and non-uniformed personnel to focus on critical security and compliance duties; 2) offer modern, electronic billing and payment options to the trade and travel communities; and 3) enable access to real-time, reliable financial and operational information to inform decision-making, promote accountability, and comply with existing and emerging reporting, operational, and security requirements from Congress, OMB, DHS, and the Department of the Treasury.



CBP Fee Management: In keeping with CBP’s commitment to increase transparency and communication with stakeholders, OF is leading the effort to improve the user fee management structure (i.e., planning, budgeting, management, and execution). These user fees are relied on to support a full range of operational requirements. Improving fee management will provide better governance of the various fee programs; fulfill requests from the UFAC in a more timely and efficient manner; and aid in improving formulation and budget submissions for communicating with Congress, DHS, and OMB.

Preclearance Cost and Adjustment Model (PCAM): CBP requires all future preclearance expansion sites to share the cost of operational expenses. CBP leadership determined that the total cost of future preclearance expansion sites will be adjusted to reflect the routine user fees paid by U.S. bound travelers from those locations. This decision required the development of a comprehensive model to guide decision makers to enable CBP to achieve its mission of securing the borders while simultaneously encouraging legitimate trade and travel. As a result, OF designed the innovative PCAM to estimate the total cost adjustment required, by preclearance airport, in order to better plan and budget for future operations. The model estimates how much cost CBP and the airports will incur and enables both parties to better plan and budget for future operational costs.

Cost Management, Time and Attendance, and COSS

Transformation Initiative (CTI): OIT and OF began efforts to re-host COSS off the mainframe and onto a distributed platform in March 2016. CTI will retire a number of antiquated systems, including the legacy COSS, and replace the systems with a modern, integrated scheduling and timekeeping solution befitting the largest Federal law enforcement agency. Upon completion, the CTI solution will provide: 1) better and more accessible scheduling and timekeeping data for resource optimization; 2) increased staff availability and operational flexibility to better support the mission; 3) scheduling and timekeeping efficiencies; 4) faster distribution of CBP’s reimbursed funds; and 5) cost avoidance and increased economic impact, such as CBP Officers’ return to law enforcement and trade facilitation duties from their scheduling duties.



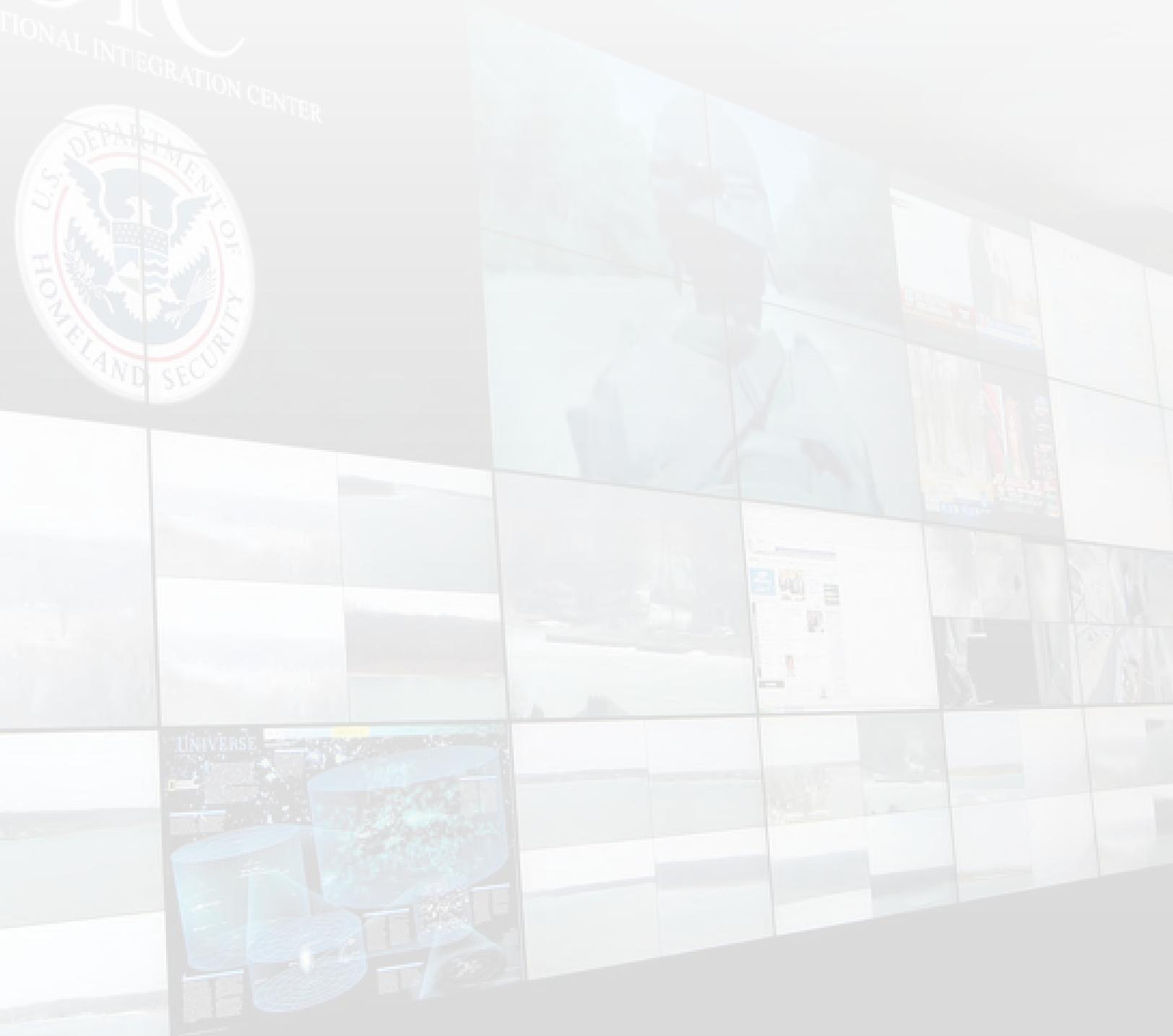
Did You Know?

COSS was originally designed for the U.S. Customs Service in 1994. It was designed to create efficiencies by consolidating four legacy applications – time and attendance management system, premium overtime and pay information system, overtime monitoring and assignment system and work ticket – into one system. When DHS was formed after the tragic events of September 11, 2001, COSS was rewritten to support the newly formed Bureau of Customs and Border Protection (later renamed U.S. Customs and Border Protection). COSS now supports approximately 59,000 users across the agency.

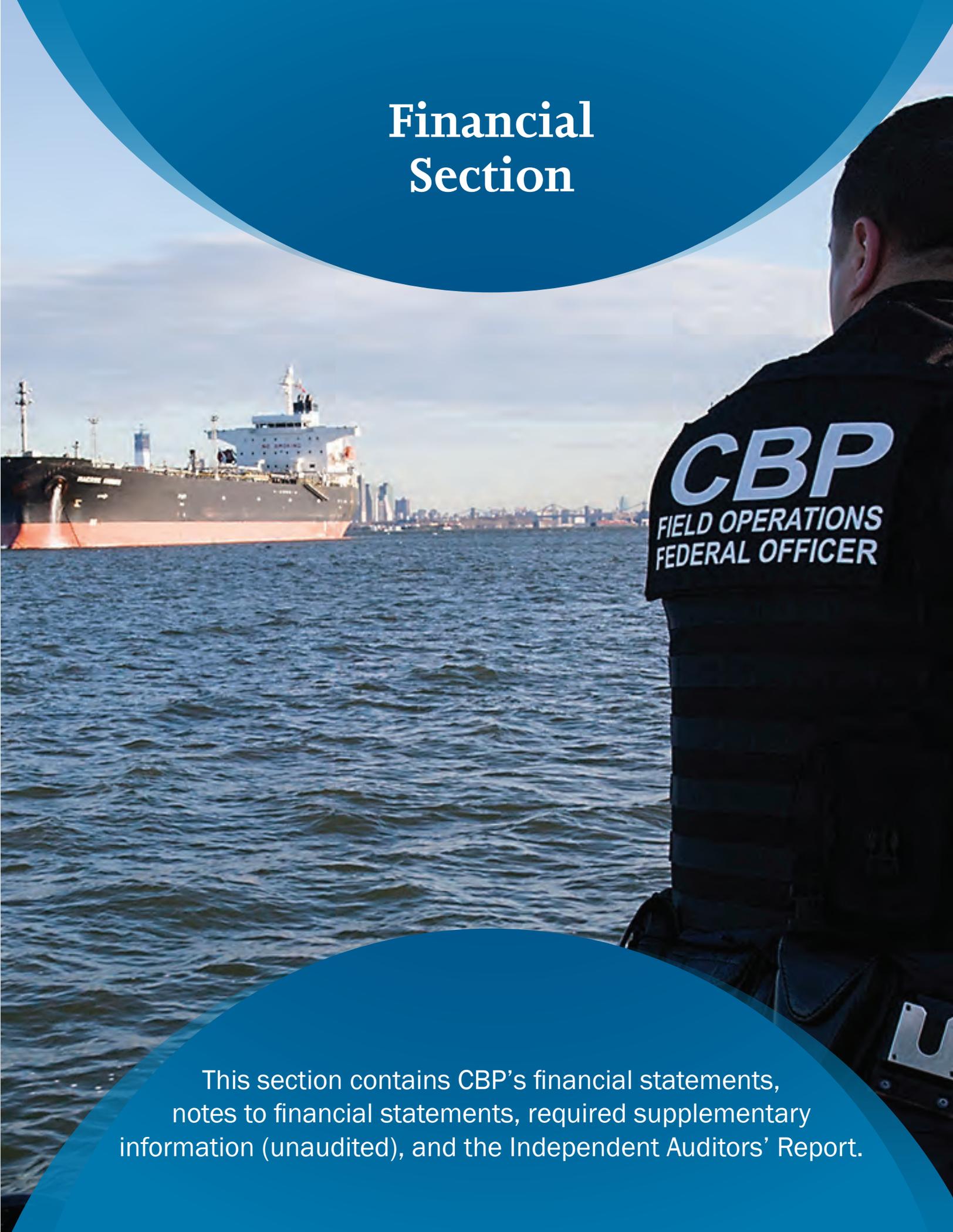
Results for Goal 4: Promote Organizational Integration, Innovation, and Agility

CBP does not have strategic performance measures that align to this strategic goal. This is a mission support goal. Per DHS guidance, mission support does not have strategic measures.

OIC
ATIONAL INTEGRATION CENTER



Financial Section

A photograph of a CBP Field Operations Federal Officer in uniform, seen from the back, looking out at a large cargo ship on the water. The officer's uniform has "CBP FIELD OPERATIONS FEDERAL OFFICER" printed on the back. The ship is a large black and red vessel with a white superstructure, sailing on a body of water. In the background, a city skyline is visible under a cloudy sky. The image is framed by blue circular graphic elements at the top and bottom.

CBP
FIELD OPERATIONS
FEDERAL OFFICER

This section contains CBP's financial statements, notes to financial statements, required supplementary information (unaudited), and the Independent Auditors' Report.

Message from the Chief Financial Officer



As the second-largest holder of the Department of Homeland Security's (DHS) total budget authority, and the second-largest collector of revenue in the federal government, CBP remains firmly committed to continuing our record in DHS and government-wide as a leader in the stewardship of public resources.

CBP is also the largest federal law enforcement agency. Our annual budget to support our approximately 59,000 employees represents nearly 70 percent of our annual budget request, thereby limiting our ability to invest in new resources to meet any new or emergent requirements. Moreover, as trade and travel continue to grow year over year, operational demands for our services increase. As a result, we continually strive to find the optimal balance of funding mission-critical investments in technology, readiness assets, and people. The purpose of this report is to provide a comprehensive assessment of our financial performance, and report on our stewardship of CBP's resources with demonstrated successes, in spite of these challenges.

CBP received a standalone unmodified audit opinion from our independent auditor on our FY 2016 financial statements for the 11th year in a row. This reflects positively on CBP's discipline, integrity, and accountability in the execution of our fiscal stewardship responsibilities. CBP is addressing the material weaknesses the independent auditors have identified in drawback of duties, taxes, and fees, IT, financial reporting, and other areas of significant deficiencies. We are committed to resolving these deficiencies as quickly as possible (refer to the Management Assurances section for further information). We will continue to make significant strides to strengthen our control environment and mitigate risks by implementing our comprehensive risk management plan.

CBP can provide reasonable assurance to support DHS's compliance requirements that the agency has achieved the objectives of the Federal Management Financial Integrity Act, Section 2 (Operations) and Section 4 (Financial Systems), with certain exceptions as identified in CBP's Management Assurances.

Also in FY 2016, while recognizing resource constraints and the need to modernize our information technology (IT) systems, CBP continued to implement business controls that improved the integrity of financial reporting. We defined a path forward to ensure our IT internal control infrastructure supports our financial systems, including the protection of our systems from potential cyber attacks. This is an encompassing task that requires the support from all CBP program offices whose systems contribute to the financial accuracy, completeness, and integrity of CBP's financial statements.

CBP continues to work toward correcting its remaining control deficiencies as identified by the financial statement audit as well as other weaknesses identified through Government Accountability Office, Department of Homeland Security Office of Inspector General, or internal management evaluations.

The diligent work of employees across CBP allows us to maintain high standards of financial stewardship. We look forward to implementing even stronger fiscal policies and practices to provide the American people the maximum value for the resources entrusted to us.

A handwritten signature in black ink that reads "Jaye Williams". The signature is written in a cursive, flowing style and is positioned above a horizontal line.

Jaye M. Williams
Chief Financial Officer
January 18, 2017

Financial Statements

The financial statements have been audited by the independent auditor KPMG LLP and engaged by the DHS OIG.

- The Consolidated Balance Sheet presents those resources owned or managed by CBP that represent future economic benefits (assets), amounts owed by CBP that will require payments from those resources or future resources (liabilities), and residual amounts retained by CBP comprising the difference (net position) as of September 30, 2016 and 2015.
- The Consolidated Statement of Net Cost presents the net cost of the major CBP programs for the fiscal years that ended on September 30, 2016 and 2015, as they relate to the goals of the DHS 2014-2018 Strategic Plan.
- The Consolidated Statement of Changes in Net Position presents the change in CBP's net position resulting from the net cost of CBP operations, budgetary financing resources, and other financing sources for the fiscal years that ended on September 30, 2016 and 2015. It 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.
- The Combined Statement of Budgetary Resources illustrates how and in what amounts budgetary resources were made available to CBP during fiscal years 2016 and 2015, the status of these resources at September 30, 2016 and 2015, the changes in the obligated balance, and outlays of budgetary resources for the fiscal years that ended on September 30, 2016 and 2015.
- The Consolidated Statement of Custodial Activity presents the disposition of custodial revenue collected and disbursed by CBP on behalf of other recipient entities using a modified cash basis for the fiscal years that ended on September 30, 2016 and 2015.
- The Notes to the Financial Statements provide detail and clarification for amounts on the face of the financial statements as of September 30, 2016 and 2015.



U.S. Customs and Border Protection
Consolidated Balance Sheets
As of September 30, 2016 and 2015
(in Thousands)

	<u>2016</u>	<u>2015</u>
ASSETS (Note 2)		
Intra-governmental:		
Fund Balance with Treasury (Note 3)	\$ 6,638,518	\$ 6,506,547
Accounts Receivable	30,767	41,291
Advances and Prepayments (Note 11)	267,387	244,737
Total Intra-governmental	<u>6,936,672</u>	<u>6,792,575</u>
Cash and Other Monetary Assets (Note 4)	7,638	3,836
Accounts Receivable, Net (Note 5)	500,706	399,979
Taxes, Duties and Trade Receivables, Net (Note 6)	3,041,892	3,244,950
Inventory and Related Property, Net (Note 7)	172,256	213,579
General Property, Plant and Equipment, Net (Note 9)	5,369,424	5,532,535
Other Assets (Note 11)	472	254
TOTAL ASSETS	<u>\$16,029,060</u>	<u>\$16,187,708</u>
Stewardship Property, Plant and Equipment (Note 10)		
LIABILITIES (Note 12)		
Intra-governmental:		
Accounts Payable	\$ 221,611	\$ 211,046
Other		
Due to the Treasury General Fund (Note 12)	3,035,304	3,246,558
Custodial Liability (Note 12)	81,211	76,200
Accrued Federal Employees' Compensation Act Liability (Note 12)	199,247	177,276
Other Employment Liabilities (Note 12)	308	363
Employee Benefits and Taxes	92,191	68,935
Advances From Others	1,320	1,981
Total Intra-governmental	<u>3,631,192</u>	<u>3,782,359</u>
Accounts Payable	244,841	266,872
Environmental and Disposal Liabilities (Notes 12 and 14)	20,124	20,074
Other		
Accrued Payroll and Benefits (Notes 12 and 13)	1,831,125	1,631,295
Refunds Payable (Note 15)	188,539	164,734
Deferred Revenue	2,242	24,861
Injured Domestic Industries (Note 15)	73,483	135,178
Liability for Puerto Rico Trust Fund (Notes 12 and 15)	69,811	69,811
Custodial Liability (Note 12)	52,576	13,495
Liabilities for Deposit Accounts	284,807	246,544
Legal Contingent Liabilities (Notes 12 and 17)	320,314	398,858
TOTAL LIABILITIES	<u>6,719,054</u>	<u>6,754,081</u>
Commitments and Contingencies (Note 17)		
NET POSITION:		
Unexpended Appropriations – All Other Funds	3,473,821	3,572,084
Cumulative Results of Operations – Funds from Dedicated Collections (Note 18)	1,296,330	976,799
Cumulative Results of Operations – All Other Funds	4,539,855	4,884,744
TOTAL NET POSITION	<u>9,310,006</u>	<u>9,433,627</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$16,029,060</u>	<u>\$16,187,708</u>

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, 2016 and 2015
(in Thousands)

	<u>2016</u>	<u>2015</u>
Securing America's Borders		
Gross Cost	\$ 5,642,012	\$ 5,563,325
Less: Earned Revenue	111,946	99,448
Net Program Costs	<u>5,530,066</u>	<u>5,463,877</u>
Securing and Expediting Trade		
Gross Cost	2,834,751	2,818,975
Less: Earned Revenue	55,201	48,735
Net Program Costs	<u>2,779,550</u>	<u>2,770,240</u>
Securing and Expediting Travel		
Gross Cost	4,767,269	4,296,250
Less: Earned Revenue	95,990	80,176
Net Program Costs	<u>4,671,279</u>	<u>4,216,074</u>
Intelligence and Targeting		
Gross Cost	962,520	857,515
Less: Earned Revenue	10,697	9,426
Net Program Costs	<u>951,823</u>	<u>848,089</u>
Total Gross Cost	14,206,552	13,536,065
Less: Total Earned Revenue	<u>273,834</u>	<u>237,785</u>
Net Cost of Operations (Notes 19 and 20)	<u>\$13,932,718</u>	<u>\$13,298,280</u>

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, 2016
(in Thousands)

	FY 2016		
	Funds from Dedicated Collections Combined	All Other Funds Combined	Consolidated Total
Cumulative Results of Operations:			
Beginning Balances	\$ 976,799	\$ 4,884,744	\$ 5,861,543
Budgetary Financing Sources:			
Appropriations Used	--	8,757,263	8,757,263
Non-exchange Revenue (Note 21)	1,099,668	1,835	1,101,503
Transfers In/Out Without Reimbursement (Note 21)	(2,443,066)	2,762,031	318,965
Other Financing Sources (Non-exchange):			
Transfers In/Out Without Reimbursement	762	12,908	13,670
Imputed Financing	--	584,550	584,550
Other (Note 21)	3,159,139	(27,730)	3,131,409
Total Financing Sources	1,816,503	12,090,857	13,907,360
Net Cost of Operations	(1,496,972)	(12,435,746)	(13,932,718)
Net Change	319,531	(344,889)	(25,358)
Cumulative Results of Operations	<u>1,296,330</u>	<u>4,539,855</u>	<u>5,836,185</u>
Unexpended Appropriations:			
Beginning Balance	--	3,572,084	3,572,084
Budgetary Financing Sources:			
Appropriations Received (Note 23)	--	8,761,851	8,761,851
Appropriations Transferred In/Out	--	(42,675)	(42,675)
Other Adjustments (Note 23)	--	(60,176)	(60,176)
Appropriations Used	--	(8,757,263)	(8,757,263)
Total Budgetary Financing Sources	--	(98,263)	(98,263)
Total Unexpended Appropriations	<u>--</u>	<u>3,473,821</u>	<u>3,473,821</u>
Net Position	<u>\$ 1,296,330</u>	<u>\$ 8,013,676</u>	<u>\$ 9,310,006</u>

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, 2015
(in Thousands)

	FY 2015		
	Funds from Dedicated Collections Combined	All Other Funds Combined	Consolidated Total
Cumulative Results of Operations:			
Beginning Balances	\$ 768,034	\$ 5,107,696	\$ 5,875,730
Budgetary Financing Sources:			
Appropriations Used	--	8,245,369	8,245,369
Non-exchange Revenue (Note 21)	911,942	1,312	913,254
Transfers In/Out Without Reimbursement (Note 21)	(2,515,568)	2,855,601	340,033
Other Financing Sources (Non-exchange):			
Transfers In/Out Without Reimbursement	(1,091)	8,212	7,121
Imputed Financing	--	599,562	599,562
Other (Note 21)	3,212,622	(33,868)	3,178,754
Total Financing Sources	1,607,905	11,676,188	13,284,093
Net Cost of Operations	(1,399,140)	(11,899,140)	(13,298,280)
Net Change	208,765	(222,952)	(14,187)
Cumulative Results of Operations	976,799	4,884,744	5,861,543
Unexpended Appropriations:			
Beginning Balance	--	3,688,692	3,688,692
Budgetary Financing Sources:			
Appropriations Received (Note 23)	--	8,311,122	8,311,122
Appropriations Transferred In/Out	--	(38,746)	(38,746)
Other Adjustments (Note 23)	--	(143,615)	(143,615)
Appropriations Used	--	(8,245,369)	(8,245,369)
Total Budgetary Financing Sources	--	(116,608)	(116,608)
Total Unexpended Appropriations	--	3,572,084	3,572,084
Net Position	\$ 976,799	\$ 8,456,828	\$ 9,433,627

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, 2016 and 2015
 (in Thousands)

	2016	2015
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1	\$ 1,728,514	\$ 1,559,893
Recoveries of Unpaid Prior Year Obligations	466,012	574,505
Other Changes in Unobligated Balance	(34,366)	(118,229)
Unobligated Balance from Prior Year Budget Authority, Net	2,160,160	2,016,169
Appropriations (Note 23)	15,064,652	15,577,725
Spending Authority from Offsetting Collections	2,094,437	1,880,186
Total Budgetary Resources	\$ 19,319,249	\$ 19,474,080
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Note 22)	\$ 17,781,120	\$ 17,745,566
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	960,578	928,257
Unapportioned, Unexpired Accounts	407,671	567,624
Unexpired Unobligated Balance, End of Year	1,368,249	1,495,881
Expired Unobligated Balance, End of Year	169,880	232,633
Unobligated Balance, End of Year	1,538,129	1,728,514
Total Budgetary Resources	\$ 19,319,249	\$ 19,474,080
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	\$ 3,575,226	\$ 3,651,410
New Obligations and Upward Adjustments (Note 22)	17,781,120	17,745,566
Outlays (gross)	(16,986,199)	(17,247,245)
Recoveries of Prior Year Unpaid Obligations	(466,012)	(574,505)
Unpaid Obligations, End of Year	3,904,135	3,575,226
Uncollected Payments:		
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(141,216)	(146,206)
Change in Uncollected Customer Payments from Federal Sources	(34,684)	4,990
Uncollected Customer Payments from Federal Sources, End of Year	(175,900)	(141,216)
Obligated Balance, Start of Year	\$ 3,434,010	\$ 3,505,204
Obligated Balance, End of Year	\$ 3,728,235	\$ 3,434,010
Budget Authority and Outlays, Net:		
Budget Authority, Gross	\$ 17,159,089	\$ 17,457,911
Actual Offsetting Collections	(2,059,755)	(1,885,408)
Change in Uncollected Customer Payments from Federal Sources	(34,684)	4,990
Recoveries of Prior Year Paid Obligations	2	232
Budget Authority, Net	\$ 15,064,652	\$ 15,577,725
Outlays, Gross	\$ 16,986,199	\$ 17,247,245
Actual Offsetting Collections	(2,059,755)	(1,885,408)
Outlays, Net	14,926,444	15,361,837
Distributed Offsetting Receipts	(4,238,617)	(4,104,082)
Agency Outlays, Net	\$ 10,687,827	\$ 11,257,755

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, 2016 and 2015
(in Thousands)

	<u>2016</u>	<u>2015</u>
Revenue Activity (Note 27):		
Sources of Cash Collections:		
Duties	\$35,197,688	\$36,321,296
User Fees	1,381,214	1,475,325
Excise Taxes	3,430,065	3,382,045
Fines and Penalties	56,978	50,085
Interest	18,038	13,625
Miscellaneous	167,614	148,288
Total Cash Collections	<u>40,251,597</u>	<u>41,390,664</u>
Accrual Adjustments (+/-)	(180,076)	107,281
Total Custodial Revenue	<u>40,071,521</u>	<u>41,497,945</u>
Disposition of Collections:		
Transferred to Others:		
Treasury General Fund Accounts	26,132,345	25,785,869
U.S. Department of Agriculture	10,732,605	11,130,974
U.S. Army Corps of Engineers	1,310,371	1,429,177
Other Federal Agencies	103,113	101,217
Government of Puerto Rico	(46,072)	(163,989)
Government of the Virgin Islands	1,588	1,024
Non-Federal Other	122,735	138,480
(Increase)/Decrease in Amounts Yet to be Transferred	(152,227)	94,150
Refunds and Drawbacks (Note 27)	1,867,063	2,981,043
Total Disposition of Collections	<u>40,071,521</u>	<u>41,497,945</u>
Net Custodial Activity	<u>\$ --</u>	<u>\$ --</u>

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

Notes to Financial Statements

U.S. Customs and Border Protection Notes to Financial Statements

1. *Significant Accounting Policies*

A. 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 U.S. 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.

B. Basis of Accounting and Presentation

These financial statements have been prepared from CBP's accounting records in conformity with U.S. Generally Accepted Accounting Principles (U.S. 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 U.S. 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 Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, Combined Statements of Budgetary Resources, and Consolidated Statements of Custodial Activity. All statements are generally prepared in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*.

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 Sheets, Consolidated Statements of Net Cost and Consolidated Statements 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 Statements of Budgetary Resources are 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 a future period. CBP non-entity revenue and disposition of collections are reported on the Consolidated Statements of Custodial Activity using a modified cash basis. With this method, revenue from cash collections is reported separately from receivable accruals and cash disbursements are reported separately from payable accruals.

In accordance with OMB Circular No. A-136, intra-CBP transactions and balances have been eliminated from the Consolidated Balance Sheets, Consolidated Statements of Net Cost, and the Consolidated Statements of Changes in Net Position. There is intra-CBP activity reported in funds from dedicated collections that is offset with activity in other funds. Accordingly, CBP presents the total information in the Statements of Changes in Net Position on a consolidated basis, while the funds from dedicated collections and all other funds are presented in the Balance Sheets and Statements of Changes in Net Position on a combined basis. As provided for by OMB Circular No. A-136, the Combined Statements of Budgetary Resources are presented on a combined basis; therefore, intra-CBP transactions and balances have not been eliminated from these statements.

**U.S. Customs and Border Protection
Notes to Financial Statements**

C. Funds from Dedicated Collections

SFFAS No. 27, *Identifying and Reporting Earmarked Funds* as amended by SFFAS No. 43, *Funds from Dedicated Collections*, requires CBP to identify and report separately funds from dedicated collections. See Note 18, Funds from Dedicated Collections, for specific required disclosures related to CBP's funds from dedicated collections.

CBP has program management responsibility for the following funds from dedicated collections:

Appropriation	Title	Note 18 Category
70X4363	Enhanced Inspectional Services	Other
70X5087	Customs and Border Protection, Immigration User Fees	IUF
70X5089	Land Border Inspection Fees	Other
70X5451	Enforcement Fines Account	Other
70X5543	International Registered Traveler	Other
70X5569	APEC Business Travel Card Fee	Other
70X5595	Electronic Systems for Travel Authorization Fees	Other
70X5694	Customs and Border Protection Services at User Fee Facilities	Other
70X5695	Customs User Fees Account	COBRA
70X5702	911 Response and Biometric Exit Account	Other
70X8870	Harbor Maintenance Fee Collections	Other

D. 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.

E. Entity and Non-entity Assets

Entity assets are assets CBP has the authority to use in its operations. The authority to use funds in an entity's operations means either CBP's management has the authority to decide how funds are used or management is legally obligated to use funds to meet entity obligations (e.g., salaries and benefits).

Non-entity assets are assets held by CBP but not available for use by CBP. They are offset by corresponding liabilities. An example of a non-entity asset is Taxes, Duties and Trade Receivables, which is offset by liabilities to the Treasury General Fund and other Federal agencies.

For additional information, see Note 2, Non-entity Assets.

F. Fund Balance with Treasury

Entity Fund Balance with Treasury represents funds remaining 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 drawbacks 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.

G. Accounts Receivable, Net

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.

U.S. Customs and Border Protection Notes to Financial Statements

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 after the end of the applicable month.

H. Advances and Prepayments

Intra-governmental advances and prepayments consist of amounts paid to Federal agencies prior to CBP's receipt of goods and services. Advances and prepayments to the public consist primarily of travel and salary advances.

I. Taxes, Duties and Trade Receivables, Net

Taxes, Duties and Trade Receivables consist of duties, user fees, fines and penalties, refunds and drawbacks overpayments, and interest associated with import/export activity, that have been established as specifically identifiable, legally enforceable claims that 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.

J. Inventory and Related Property, Net

Inventory and Related Property consists of aircraft parts, vessel parts, border security parts, and CBP uniforms classified as operating materials and supplies to be used in CBP's operations. Manned aircraft and border security parts and materials are recorded at average unit cost, and unmanned aircraft parts, vessel parts and uniforms are recorded using the First-In-First-Out valuation method. Both methods approximate actual acquisition costs. CBP accounts for inventory using the consumption method and records an operating expense when inventory is ultimately used in operations.

K. Seized and Forfeited Property

Prohibited seized and forfeited property results primarily from U.S. Immigrations and Customs Enforcement's (ICE) criminal investigations and from CBP's seizures during passenger and 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 occurs. Non-prohibited seized property, including monetary instruments, real property and tangible personal property of others in the actual or constructive possession of CBP is transferred to the Treasury Forfeiture Fund and is not presented in the accompanying CBP Consolidated Balance Sheets or Note 8, Seized and Forfeited Property.

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

U.S. Customs and Border Protection Notes to Financial Statements

L. General Property, Plant and Equipment, Net

CBP capitalizes property, plant and equipment (PP&E), excluding land, with an acquisition value of \$50 thousand or greater, and a useful life of two years or greater. CBP capitalizes all land.

CBP estimates a portion of the Construction in Progress balance to accrue amounts for work completed but not yet recorded. The estimate is calculated by applying the percentage of work completed on a construction project to the associated undelivered orders.

Expenditures for normal repairs and maintenance are expensed as incurred. Expenditures greater than \$50 thousand that extend an asset's useful life, or enlarge or improve capacity, are capitalized and depreciated or amortized over the remaining useful life of the asset.

Depreciation and amortization are computed using the straight line method over the estimated useful lives of the assets. 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.

M. Accounts Payable

A portion of the accounts payable balance related to commercial vendors and travel activities is estimated and recorded through an accrual. This estimate is created using a historical ratio of subsequent disbursements to undelivered orders. The ratio is then applied to the year-end undelivered order balance to arrive at estimated accounts payable.

N. Due to the Treasury General Fund

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

O. Custodial Liability

Custodial Liability is the offsetting liability to non-entity collections and non-entity receivables owed to entities other than the Treasury General Fund. The intra-governmental custodial liability is owed to other federal agencies. The custodial liability with the public is comprised of amounts owed to the governments of Puerto Rico and U.S. Virgin Islands for duties collected in excess of CBP's cost of collecting those duties.

P. 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 Sheets 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.

Q. 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 for employees hired before January 1, 2013, CBP contributes 13.7 percent of base pay for regular employees and 30.1 percent for law enforcement agents. For the FERS basic benefit for employees hired after December 31, 2012, CBP contributes 11.9 percent of base pay for regular employees and 28.4 percent for law enforcement agents. The pay base for determining CBP contributions to CSRS and FERS for inspectors and canine

U.S. Customs and Border Protection Notes to Financial Statements

officers includes regular pay and up to a maximum of \$17.5 thousand in certain overtime earnings for FY 2016 and 2015. CBP recognizes the full costs of its employees' pension benefits including the portion paid by the Office of Personnel Management (OPM) as required by law; however, the liability associated with these costs is recognized by 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.

R. Workers' Compensation and Unemployment 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 for payments made usually occurs approximately two fiscal 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 unfunded FECA is recorded is titled Accrued FECA Liability and actuarial FECA is recorded in Accrued Payroll and Benefits in the accompanying Consolidated Balance Sheets.

Additionally, the actuarial liability due to the public for estimated future payments 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 actuarial liability is not covered by budgetary resources and will require future funding. For additional information see Note 13, Accrued Payroll and Benefits.

A liability is also recorded for unemployment compensation owed to DOL for payments made to former CBP employees. The Unemployment Compensation for Federal Employees program provides benefits for unemployed former Federal employees and is administered by states as agents for the Federal government. DOL reimburses the states for benefits paid and then charges Federal agencies for reimbursement for their former employees' benefits payments. The unemployment compensation liability is reported as Intra-governmental Other Employment Liabilities.

S. 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.

T. Cumulative Results of Operations

Cumulative Results of Operations primarily represent the excess of user fee revenues over related expenses. It also represents the net investment in Property, Plant and Equipment, Inventory and Related Property, 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 dedicated collections is shown separately on both the Consolidated Balance Sheets and the Consolidated Statements of Changes in Net Position. For additional information see Note 18, Funds from Dedicated Collections.

U.S. Customs and Border Protection Notes to Financial Statements

U. 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. CBP records deferred revenue for payments received from duties collected in Puerto Rico for which goods or services have not been fully provided to the Government of Puerto Rico. Deferred revenue is reported as a liability on the Consolidated Balance Sheets until earned in a future year. 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.

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, U.S. Department of Agriculture, and U.S. Army Corps of Engineers. CBP transfers the remaining revenue (generally less than one percent of revenues collected) directly to other Federal agencies, the Government of Puerto Rico and the U.S. Virgin Islands. Refunds of revenues collected from import/export activity are recorded in separate accounts established for this purpose and are funded through a permanent, indefinite appropriation. These activities reflect the non-entity or custodial responsibilities that CBP, as an agency of the Federal Government, has been authorized by law to enforce.

The activities reported on the Consolidated Statements 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 (CBP Overtime Scheduling System).

Non-entity Revenue is recognized when the revenue CBP is entitled to collect on behalf of the Federal Government is earned. Primarily, the revenue results 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 Drawbacks Account.
- **Drawbacks:** remittances, in whole or in part, of duties, taxes or fees. Drawback 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.

CBP receives an annual permanent, indefinite appropriation to fund refunds and drawbacks payments. The appropriation is recorded as a liability to Treasury General Fund, which is reduced as payments are made. Any unobligated balance at year-end is returned to Treasury.

U.S. Customs and Border Protection Notes to Financial Statements

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 Treasury receipt accounts 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 receivables, net of uncollectible amounts and refunds payable.

V. Use of Estimates

Management has made certain estimates and assumptions in the reporting of assets, liabilities and note disclosures in the Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, Combined Statements of Budgetary Resources, Consolidated Statements 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, actuarial workers' compensation, 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.

W. Taxes

CBP, as a Federal entity, 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.

X. Reclassifications

In FY 2016, certain FY 2015 balances were reclassified to conform to the FY 2016 presentation for the Combined Statements of Budgetary Resources and Note 8, Seized and Forfeited Property.

2. Non-entity Assets

Non-entity assets as of September 30, 2016 and 2015, consist of the following (in thousands):

	2016	2015
Intra-governmental:		
Fund Balance with Treasury (Note 3)	\$ 619,127	\$ 610,291
Public		
Cash and Other Monetary Assets (Note 4)	6,968	3,524
Accounts Receivable, Net	1,055	797
Taxes, Duties and Trade Receivables, Net (Note 6)	3,041,892	3,244,950
Total Public	<u>3,049,915</u>	<u>3,249,271</u>
Total Non-entity Assets	3,669,042	3,859,562
Total Entity Assets	<u>12,360,018</u>	<u>12,328,146</u>
Total Assets	<u>\$16,029,060</u>	<u>\$16,187,708</u>

Non-entity Fund Balance with Treasury as of September 30, 2016 and 2015 includes approximately \$269.0 million and \$233.0 million (deposit funds) in duties collected by CBP for U.S. Virgin Islands, U.S. Department of Agriculture and antidumping/countervailing duties and \$146.2 million and \$212.2 million (special funds) for Injured Domestic Industries as of September 30, 2016 and 2015, respectively. These assets are directly offset with liabilities as of September 30, 2016 and 2015.

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. Upon collection of these receivables, the funds will be available to pay the accrued intra-governmental liabilities Due to the

**U.S. Customs and Border Protection
Notes to Financial Statements**

Treasury General Fund and Custodial Liability, which totaled \$3.1 billion and \$3.3 billion as of September 30, 2016 and 2015, respectively.

3. Fund Balance with Treasury

Fund Balance with Treasury as of September 30, 2016 and 2015 consists of the following (in thousands):

<u>2016</u>	<u>Entity</u>	<u>Non-entity</u>	<u>Total</u>
Trust Funds	\$ 2,444	\$ --	\$ 2,444
Special Funds	895,763	146,176	1,041,939
General Funds	4,090,096	203,921	4,294,017
Other Funds	1,017,007	--	1,017,007
Deposit Funds	14,081	269,030	283,111
Total	\$6,019,391	\$ 619,127	\$ 6,638,518

<u>2015</u>	<u>Entity</u>	<u>Non-entity</u>	<u>Total</u>
Trust Funds	\$ 1,229	\$ --	\$ 1,229
Special Funds	659,620	212,234	871,854
General Funds	4,203,861	165,099	4,368,960
Other Funds	1,019,071	--	1,019,071
Deposit Funds	12,475	232,958	245,433
Total	\$5,896,256	\$ 610,291	\$ 6,506,547

Trust funds are both receipt accounts and expenditure accounts that are designated by law as trust funds. 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, 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's authority to assess and collect passenger and conveyance-related user fees, CBP's authority to assess and collect fees associated with services performed at certain small airports or other facilities, and CBP's 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, 2016 and 2015, Customs User Fees Account includes approximately \$330.2 million and \$242.2 million, respectively; Customs and Border Protection Services at User Fee Facilities account contained approximately \$12.6 million and \$13.2 million, respectively; Refunds, Transfers and Expenses of Operation of Puerto Rico account contained approximately \$75.5 million and \$135.7 million, respectively; and Immigration User Fees contained \$118.7 million and \$61.6 million, respectively. Non-entity fund balance represents amounts collected in connection with antidumping and countervailing duties of \$144.7 million and \$210.8 million as of September 30, 2016 and 2015, respectively. Of this balance, \$73.5 million and \$135.2 million are eligible for payment to qualifying Injured Domestic Industries as of September 30, 2016 and 2015, 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 drawbacks 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 advances that are not accompanied by orders. Once the order is received, the deposit fund balance is decreased.

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Status of Fund Balance with Treasury as of September 30, 2016 and 2015 consists of the following (in thousands):

2016	Entity	Non-entity	Total
Unobligated Balance			
Available	\$ 875,110	\$ 85,081	\$ 960,191
Unavailable	569,380	61,095	630,475
Obligated Balance not yet Disbursed	3,524,314	203,921	3,728,235
Non-budgetary FBWT	1,050,587	269,030	1,319,617
Total	\$6,019,391	\$619,127	\$6,638,518
2015	Entity	Non-entity	Total
Unobligated Balance			
Available	\$ 928,065	\$ --	\$ 928,065
Unavailable	646,752	212,406	859,158
Obligated Balance not yet Disbursed	3,269,082	164,927	3,434,009
Non-budgetary FBWT	1,052,357	232,958	1,285,315
Total	\$5,896,256	\$610,291	\$6,506,547

Portions of the Unobligated Balance Unavailable include amounts appropriated in prior fiscal years that are not available to fund new obligations. However, the amounts 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 for which payment has not yet been made.

The Non-budgetary Fund Balance with Treasury at September 30, 2016 and 2015 includes \$958.1 million in COBRA User Fees in Other Funds that are restricted by law for use until either withdrawn by Treasury from CBP's account or made available to CBP, as provided in Appropriation Acts. The balance resulted from elimination of the North American Free Trade Agreement (NAFTA) country exemptions from 1994 to 1997 and from 2012 to 2013.

CBP returned to Treasury \$63.8 million and \$315.5 million for indefinite no-year authority and retained \$204.1 million and \$164.9 million in authority for obligations pursuant to public law during the years ending September 30, 2016 and 2015, respectively.

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, 2016, CBP canceled \$25.1 million from FY 2011 annual appropriations. As of September 30, 2015, CBP canceled \$118.5 million from FY 2010 annual appropriations.

4. Cash and Other Monetary Assets

Cash and Other Monetary Assets as of September 30, 2016 and 2015, consist of the following (in thousands):

2016	Entity	Non-entity	Total
Imprest Funds	\$ 387	\$ --	\$ 387
Undeposited Collections	283	6,968	7,251
Total	\$670	\$6,968	\$7,638
2015	Entity	Non-entity	Total
Imprest Funds	\$ 192	\$ --	\$ 192
Undeposited Collections	120	3,524	3,644
Total	\$312	\$3,524	\$3,836

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Imprest funds consist of cash held primarily for change-making and for using as aids in training canines to detect the odor of currency. 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.

5. Accounts Receivable, Net

Receivables with the public as of September 30, 2016 and 2015 are as follows (in thousands):

<u>Receivable Category</u>	2016		
	Gross Receivable	Amounts Uncollectible	Total Net Receivables
Reimbursable Services	\$ 77,730	\$ --	\$ 77,730
Customs User Fees	334,732	(2,829)	331,903
Immigration User Fees	100,984	(9,911)	91,073
Total	\$513,446	\$(12,740)	\$500,706

<u>Receivable Category</u>	2015		
	Gross Receivable	Amounts Uncollectible	Total Net Receivables
Reimbursable Services	\$ 878	\$ --	\$ 878
Customs User Fees	322,149	(2,564)	319,585
Immigration User Fees	88,603	(9,087)	79,516
Total	\$411,630	\$(11,651)	\$399,979

6. Taxes, Duties and Trade Receivables, Net

Receivables as of September 30, 2016 and 2015 are as follows (in thousands):

<u>Receivable Category</u>	2016		
	Gross Receivable	Amounts Uncollectible	Total Net Receivables
Duties	\$2,619,060	\$ (132,792)	\$2,486,268
Excise Taxes	197,593	(8,177)	189,416
User Fees	75,594	(318)	75,276
Fines/Penalties	544,341	(444,276)	100,065
Interest	834,282	(830,630)	3,652
Antidumping/ Countervailing Duties	1,965,300	(1,847,903)	117,397
Refunds and Drawbacks	71,255	(1,437)	69,818
Total	\$6,307,425	\$(3,265,533)	\$3,041,892

**U.S. Customs and Border Protection
Notes to Financial Statements**

<u>Receivable Category</u>	<u>2015</u>		<u>Total Net Receivables</u>
	<u>Gross Receivable</u>	<u>Amounts Uncollectible</u>	
Duties	\$2,651,597	\$ (124,239)	\$2,527,358
Excise Taxes	163,540	(9,663)	153,877
User Fees	71,203	(369)	70,834
Fines/Penalties	488,130	(428,875)	59,255
Interest	802,602	(752,115)	50,487
Antidumping/ Countervailing Duties	1,961,033	(1,647,801)	313,232
Refunds and Drawbacks	72,075	(2,168)	69,907
Total	<u>\$6,210,180</u>	<u>\$(2,965,230)</u>	<u>\$3,244,950</u>

CBP assesses duties, taxes and fees on goods and merchandise brought into the United States from foreign countries. At the time importers bring merchandise into the United States, they are required to file CBP entry documents. Generally, within 10 working days after CBP releases the merchandise into the U.S. commerce, the importer is required 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 by the 15th work day of the month following release. A gross receivable (comprised of duties, taxes, and fees) of \$2.9 billion was recorded for merchandise released into commerce on or before both September 30, 2016 and 2015. It is CBP's policy to track and demand payment of unpaid estimated duties, taxes and fees receivable 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 83.8 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 are offsetting liabilities due to the Treasury General Fund and other federal agencies.

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 border security property used for enforcement activities. In addition, CBP holds a stock of uniforms to be issued for the CBP academies and as needed by officers and agents. Border security operating materials and supplies as of September 30, 2016 and 2015 includes \$14.9 million and \$24.5 million, respectively, for steel used to repair Border Patrol tactical infrastructure and \$39.4 million and \$34.5 million, respectively, in spare parts used to repair border security systems. 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. CBP estimates the net realizable value of Excess, Obsolete, and Unserviceable operating materials and supplies as zero and recorded losses of \$484.2 thousand and \$236.0 thousand in FY 2016 and FY 2015, respectively, to adjust the carrying value to zero.

**U.S. Customs and Border Protection
Notes to Financial Statements**

Operating Materials and Supplies as of September 30, 2016 and 2015 consist of the following (in thousands):

	2016	2015
Aircraft Parts		
Items Held for Use	\$ 91,564	\$115,485
Items Held for Repair	12,280	25,746
Total Aircraft Parts	103,844	141,231
Vessel Parts		
Items Held for Use	9,624	8,015
Items Held for Repair	142	268
Total Vessel Parts	9,766	8,283
Border Security Parts		
Items Held for Use	47,071	50,219
Items Held for Repair	7,277	8,767
Total Border Security Parts	54,348	58,986
Uniforms		
Items Held for Use	4,298	5,079
Total Uniforms	4,298	5,079
Total	\$172,256	\$213,579

8. Seized and Forfeited Property

This schedule is presented for 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. Firearms are presented in number of case line items. Counterfeit goods include clothing, footwear, jewelry, electronic equipment, movies, music, media, identification documents and other items. Counterfeit goods are presented in number of case line items. Illegal drugs consist of tested and verified controlled substances as defined per the Controlled Substances Act. 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. The Other Drugs category includes immaterial amounts of controlled substances that do not warrant being isolated to an individual category.

Remissions occur when CBP returns property back to the violator. Adjustments are caused by changes during the year to the beginning balances due to changes in legal status or property types. For example, a case considered forfeited could be re-opened and changed to seized status or a drug property type may change on a case. Transfers occur when CBP conveys property to other federal, state and local law enforcement agencies for prosecution, destruction or donation.

Analysis of Changes in Prohibited (Non-valued) Seized Property, September 30, 2016

Category	Balance October 1	New Seizures	Remissions and Adjustments	New Forfeitures	Balance September 30
Illegal Drugs (in kilograms)					
Cannabis (marijuana)	1,316	772,329	1,011	(774,437)	219
Cocaine	412	30,701	(381)	(30,630)	102
Heroin	21	2,426	1	(2,425)	23
Synthetic Marijuana	269	719	(264)	(715)	9
Khat	--	70,277	--	(70,277)	--
Methamphetamine	210	18,863	(8)	(18,831)	234
Other Drugs	1,285	11,965	(94)	(11,809)	1,347
Firearms (in number of case line items)	4,217	1,951	(360)	(1,318)	4,490
Counterfeit Goods (in number of case line items)	33,212	66,879	(3,265)	(63,716)	33,110

U.S. Customs and Border Protection Notes to Financial Statements

Analysis of Changes in Prohibited (Non-valued) Seized Property, September 30, 2015

Category	Balance October 1	New Seizures	Remissions and Adjustments	New Forfeitures	Balance September 30
Illegal Drugs (in kilograms)					
Cannabis (marijuana)	3,013	893,068	(550)	(894,215)	1,316
Cocaine	303	27,226	(240)	(26,877)	412
Heroin	49	2,638	(35)	(2,631)	21
Synthetic Marijuana	303	3,804	(39)	(3,799)	269
Khat	--	67,412	--	(67,412)	--
Methamphetamine	33	13,627	(66)	(13,384)	210
Other Drugs	858	9,103	(17)	(8,659)	1,285
Firearms (in number of case line items)	5,603	1,579	(520)	(2,445)	4,217
Counterfeit Goods (in number of case line items)	33,320	63,879	(3,237)	(60,750)	33,212

Analysis of Changes in Prohibited (Non-valued) Forfeited Property, September 30, 2016

Category	Balance October 1	New Forfeitures	Transfers and Adjustments	Destroyed	Balance September 30
Illegal Drugs (in kilograms)					
Cannabis (marijuana)	145,112	774,437	(460,331)	(318,619)	140,599
Cocaine	25,037	30,630	(3,717)	(20,399)	31,551
Heroin	3,757	2,425	(466)	(2,429)	3,287
Synthetic marijuana	10,273	715	99	(1,083)	10,004
Khat	3,000	70,277	24	(69,687)	3,614
Methamphetamine	14,580	18,831	(1,004)	(13,205)	19,202
Other Drugs	4,220	11,809	(550)	(8,814)	6,665
Firearms (in number of case line items)	2,504	1,318	(2,507)	(8)	1,307
Counterfeit Goods (in number of case line items)	38,089	63,716	558	(71,737)	30,626

Analysis of Changes in Prohibited (Non-valued) Forfeited Property, September 30, 2015

Category	Balance October 1	New Forfeitures	Transfers and Adjustments	Destroyed	Balance September 30
Illegal Drugs (in kilograms)					
Cannabis (marijuana)	134,592	894,215	(544,624)	(339,071)	145,112
Cocaine	21,301	26,877	(465)	(22,676)	25,037
Heroin	3,505	2,631	(165)	(2,214)	3,757
Synthetic marijuana	9,538	3,799	78	(3,142)	10,273
Khat	2,242	67,412	(21)	(66,633)	3,000
Methamphetamine	13,274	13,384	(386)	(11,692)	14,580
Other Drugs	8,220	8,659	(160)	(12,499)	4,220
Firearms (in number of case line items)	1,410	2,445	(1,322)	(29)	2,504
Counterfeit Goods (in number of case line items)	26,583	60,750	47	(49,291)	38,089

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9. General Property, Plant and Equipment, Net

Property, Plant and Equipment as of September 30, 2016 and 2015 consists of the following (in thousands):

2016				
Categories	Useful Life (in years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Land and Land Rights	N/A	\$ 186,774	\$ --	\$ 186,774
Improvements to Land	5 - 40	2,246,265	(813,428)	1,432,837
Construction in Progress	N/A	344,964	--	344,964
Buildings, Other Structures and Facilities*	20 - 40	2,071,197	(508,398)	1,562,799
Equipment:				
ADP Equipment	5	355,435	(292,017)	63,418
Aircraft	12 - 27	1,587,999	(779,928)	808,071
Vessels	5 - 30	47,602	(24,697)	22,905
Vehicles	4 - 8	390,046	(349,404)	40,642
Other Equipment	5 - 15	2,140,313	(1,715,384)	424,929
Leasehold Improvements	2 - 30	634,360	(331,475)	302,885
Internal Use Software	5	1,297,246	(1,127,578)	169,668
Internal Use Software-in Development	N/A	9,532	--	9,532
Total		\$11,311,733	\$(5,942,309)	\$5,369,424

2015				
Categories	Useful Life (in years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Land and Land Rights	N/A	\$ 185,454	\$ --	\$ 185,454
Improvements to Land	5 - 40	2,236,392	(699,427)	1,536,965
Construction in Progress	N/A	371,192	--	371,192
Buildings, Other Structures and Facilities*	20 - 40	2,046,960	(443,098)	1,603,862
Equipment:				
ADP Equipment	5	381,796	(312,258)	69,538
Aircraft	12 - 27	1,491,714	(757,847)	733,867
Vessels	5 - 30	44,137	(23,156)	20,981
Vehicles	4 - 8	395,396	(345,608)	49,788
Other Equipment	5 - 15	2,044,628	(1,580,843)	463,785
Leasehold Improvements	2 - 30	583,932	(292,324)	291,608
Internal Use Software	5	1,238,226	(1,053,144)	185,082
Internal Use Software-in Development	N/A	20,413	--	20,413
Total		\$11,040,240	\$(5,507,705)	\$5,532,535

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

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10. Stewardship PP&E

CBP's Stewardship PP&E is comprised of heritage assets located in Washington D.C. and the Commonwealth of Puerto Rico. CBP aggregates its personal property heritage assets as collections of documents and artifacts and reflects its multi-use heritage assets as number of physical units. Information related to heritage assets at September 30, 2016 and 2015 consists of the following:

Categories	2016				
	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
Categories	2015				
	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 port records, CBP regulations, and ledgers of Collectors of Customs. 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, 2016 and 2015, CBP maintained four Customs houses, designated as multi-use heritage assets, located in Puerto Rico and valued at \$534 thousand, which are fully depreciated. All multi-use heritage assets are reflected on the Consolidated Balance Sheets. Deferred maintenance and repairs and condition information for heritage assets are presented in the Required Supplementary Information.

11. Other Assets

Advances and Prepayments

Intra-governmental advances and prepayments as of September 30, 2016 and 2015, totaling \$267.4 million and \$244.7 million, respectively, consist primarily of advances to the Departments of Transportation and Defense for support of border security, and to the Department of Justice, UNICOR, for vehicle purchases.

Other

Other assets consists of capital assets no longer in service, pending disposal, and employee travel and salary advances as of September 30, 2016 and 2015, totaling \$472 thousand and \$254 thousand, respectively.

**U.S. Customs and Border Protection
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12. Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources as of September 30, 2016 and 2015, consist of the following (in thousands):

	<u>2016</u>	<u>2015</u>
Intra-governmental:		
Accrued FECA Liability	\$ 199,247	\$ 177,276
Other Employment Liabilities	308	363
Due to the Treasury General Fund	2,965,182	3,176,321
Custodial Liability	81,211	76,200
Total Intra-governmental	<u>3,245,948</u>	<u>3,430,160</u>
Public:		
Accrued Payroll and Benefits:		
Accrued Unfunded Leave (Note 13)	451,119	421,740
Actuarial FECA Liability (Note 13)	1,137,811	1,008,009
Other Employment Liabilities (Note 13)	1,834	3,832
Environmental and Disposal Liabilities (Note 14)	20,124	20,074
Custodial Liability	52,576	13,495
Liability for Puerto Rico Trust Fund (Note 15)	69,811	69,811
Legal Contingent Liabilities (Note 17)	320,314	398,858
Total Public	<u>2,053,589</u>	<u>1,935,819</u>
Total Liabilities Not Covered by Budgetary Resources	5,299,537	5,365,979
Total Liabilities Covered by Budgetary Resources	1,419,517	1,388,102
Total Liabilities	<u>\$6,719,054</u>	<u>\$6,754,081</u>

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.

CBP considers \$119.6 million and \$105.7 million of the accrued FECA Liability, \$1.1 billion and \$1.0 billion of the actuarial FECA Liability, and \$292.6 million and \$372.5 million of the Legal Contingent Liabilities as non-current as of September 30, 2016 and 2015, respectively. CBP considers all remaining liabilities as current.

13. Accrued Payroll and Benefits

The payroll and benefits liability as of September 30, 2016 and 2015 consists of the following (in thousands):

	<u>2016</u>	<u>2015</u>
Accrued Funded Payroll and Benefits	\$ 240,361	\$ 197,714
Accrued Unfunded Leave	451,119	421,740
Accrued Other Employment Liabilities	1,834	3,832
Actuarial FECA Liability	1,137,811	1,008,009
Total	<u>\$1,831,125</u>	<u>\$1,631,295</u>

Future workers' compensation estimates are generated from an application of actuarial procedures developed by DOL.

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14. Environmental and 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. The estimated liabilities include both friable and non-friable asbestos-related costs. Costs are recognized and disclosed in accordance with SFFAS Nos. 5 and 6; Technical Releases Nos. 2, 10, and 11; Technical Bulletin 2006-1; and DHS policy directives and memoranda. 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, 2016 and 2015 was \$20.1 million. 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 2016 dollars and have been appropriately adjusted to account for inflation.
- Inventory of liabilities was modified in the Due Care Review process, which includes routine assessments and reviews to identify the mediation, presence, and removal of environmental liabilities.

15. Other Liabilities

Refunds Payable

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

CBP accrues a liability for refunds and drawbacks 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. CBP calculates the accrual based on the current fiscal year actual disbursements and subsequent disbursement testing of the prior fiscal year accrual. CBP has estimated \$25.8 million as of September 30, 2016 and \$21.2 million as of September 30, 2015, as a payable.

The September 30, 2016 and 2015, accrued liability consists of the following (in thousands):

	<u>2016</u>	<u>2015</u>
Refunds	\$140,118	\$107,606
Drawback Claims	48,421	57,128
Total	<u>\$188,539</u>	<u>\$164,734</u>

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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, 2016 and 2015, CBP recorded a liability of \$73.5 million and \$135.2 million, respectively. CBP makes annual payments of antidumping/countervailing duties to qualifying Injured Domestic Industries.

Liability for Puerto Rico Trust Fund

The liability for Puerto Rico Trust Fund is for amounts owed for prior year Puerto Rico drawback payments that were funded out of the Refunds and Drawbacks appropriation.

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

The following schedule, by years, shows the future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year, as of September 30, 2016 (in thousands):

<u>Fiscal Year</u>	<u>Facilities</u>
2017	\$ 255,859
2018	235,785
2019	204,384
2020	191,669
2021	175,842
Beyond 2021	1,533,348
Total Future Lease Payments	\$2,596,887

17. Commitments and Contingencies

Legal Contingent Liabilities

CBP is party to various administrative proceedings, legal actions, and administrative claims brought against it in the normal course of operations that may result in settlements or decisions that are adverse to CBP. The ultimate disposition of these claims is unknown, and they are primarily related to personnel matters, Federal Tort Claims Act matters, and trade matters involving various customs laws and regulations. Any financially unfavorable administrative or court decision will normally be funded from: (1) CBP appropriation for refunds and drawbacks; (2) the Judgment Fund maintained by Treasury; or (3) CBP salaries and expenses appropriations.

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The range of estimated contingent liabilities for all probable and estimable litigation related claims as of September 30, 2016 and 2015 were \$320.3 million to \$331.2 million and \$398.9 million to \$1.0 billion, respectively. Asserted and pending legal claims for which loss is reasonably possible range from an estimated \$472.0 million to \$532.8 million and \$695.2 million to \$753.6 million as of September 30, 2016 and 2015, respectively. As of September 30, 2016, CBP had three unasserted tort cases considered probable or reasonably possible for which no estimate could be made.

As disclosed in Note 12, \$292.6 million and \$372.5 million of the Legal Contingent Liabilities is considered non-current as of September 30, 2016 and 2015, 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 Drawbacks 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, 2016 and 2015 have been recorded.

Loaned Aircraft

CBP is liable to the Department of Defense for damage or loss to aircraft on loan. CBP had 16 aircraft loaned from the Department of Defense with an acquisition value of \$23 million per aircraft for both years ended September 30, 2016 and 2015.

18. Funds from Dedicated Collections

Funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes and must be accounted for separately from the Federal Government's General Fund.

Consolidated Omnibus Budget Reconciliation Act (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, and are deposited into Customs User Fees accounts (Treasury Account Fund Symbols 705695.30 and 70X5695).

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.

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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 Immigration and Naturalization Service (INS), 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 was still required to provide inspection services.

The IUFA was also established as a repository for fines imposed to prevent unauthorized landing and unlawful transport of aliens into 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.

CBP collects and shares the revenue from the immigration user fees with Immigration and Customs Enforcement (ICE). The fees are collected in the Immigration User Fees accounts (Treasury Account Fund Symbols 705087.003 and 70X5087). CBP maintains approximately 82.6 percent of the user fee, while the other 17.4 percent is turned over to ICE.

The following tables present combined data relating to CBP funds from dedicated collections (disclosed in Note 1.B and 1.C) as of and for the years ended September 30, 2016 and 2015 (in thousands).

	2016			
	COBRA	IUF	All Others	Total
Balance Sheet				
Assets				
Fund Balance with Treasury	\$330,230	\$175,668	\$373,234	\$ 879,132
Other Assets	332,186	91,073	12,256	435,515
Total Assets	<u>\$662,416</u>	<u>\$266,741</u>	<u>\$385,490</u>	<u>\$1,314,647</u>
Liabilities and Net Position				
Liabilities	\$ 14,585	\$ --	\$ 3,732	\$ 18,317
Cumulative Results of Operations	647,831	266,741	381,758	1,296,330
Total Liabilities and Net Position	<u>\$662,416</u>	<u>\$266,741</u>	<u>\$385,490</u>	<u>\$1,314,647</u>
Statement of Net Cost				
Gross Cost	\$676,702	\$647,246	\$214,768	\$1,538,716
Less: Earned Revenue	--	18,618	23,126	41,744
Net Cost of Operations	<u>\$676,702</u>	<u>\$628,628</u>	<u>\$191,642</u>	<u>\$1,496,972</u>

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	2016			
Statement of Changes In Net Position	COBRA	IUF	All Others	Total
Net Position Beginning of Period	\$ 548,662	\$ 200,655	\$ 227,482	\$ 976,799
Net Costs of Operations	(676,702)	(628,628)	(191,642)	(1,496,972)
Non-exchange Revenue	763,390	--	336,278	1,099,668
Net Transfers In/Out	(2,297,123)	(145,943)	762	(2,442,304)
Other (Note 21)	2,309,604	840,657	8,878	3,159,139
Change in Net Position	<u>99,169</u>	<u>66,086</u>	<u>154,276</u>	<u>319,531</u>
Net Position End of Period	<u>\$ 647,831</u>	<u>\$ 266,741</u>	<u>\$ 381,758</u>	<u>\$ 1,296,330</u>

	2015			
Balance Sheet	COBRA	IUF	All Others	Total
Assets				
Fund Balance with Treasury	\$ 242,183	\$ 121,139	\$ 221,555	\$ 584,877
Other Assets	319,705	79,516	8,910	408,131
Total Assets	<u>\$ 561,888</u>	<u>\$ 200,655</u>	<u>\$ 230,465</u>	<u>\$ 993,008</u>
Liabilities and Net Position				
Liabilities	\$ 13,226	\$ --	\$ 2,983	\$ 16,209
Cumulative Results of Operations	548,662	200,655	227,482	976,799
Total Liabilities and Net Position	<u>\$ 561,888</u>	<u>\$ 200,655</u>	<u>\$ 230,465</u>	<u>\$ 993,008</u>
Statement of Net Cost				
Gross Cost	\$ 621,284	\$ 628,773	\$ 174,044	\$ 1,424,101
Less: Earned Revenue	--	10,541	14,420	24,961
Net Cost of Operations	<u>\$ 621,284</u>	<u>\$ 618,232</u>	<u>\$ 159,624</u>	<u>\$ 1,399,140</u>
Statement of Changes In Net Position				
Net Position Beginning of Period	\$ 438,895	\$ 139,876	\$ 189,263	\$ 768,034
Net Costs of Operations	(621,284)	(618,232)	(159,624)	(1,399,140)
Non-exchange Revenue	722,353	--	189,589	911,942
Net Transfers In/Out	(2,375,186)	(140,382)	(1,091)	(2,516,659)
Other (Note 21)	2,383,884	819,393	9,345	3,212,622
Change in Net Position	<u>109,767</u>	<u>60,779</u>	<u>38,219</u>	<u>208,765</u>
Net Position End of Period	<u>\$ 548,662</u>	<u>\$ 200,655</u>	<u>\$ 227,482</u>	<u>\$ 976,799</u>

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

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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, 2016 and 2015 (in thousands):

For the years ended September 30, 2016 and 2015:

	2016	2015
Securing America’s Borders		
Intra-governmental Costs	\$ 1,729,253	\$ 1,664,837
Public Costs	3,912,759	3,898,488
Total Securing America’s Borders Costs	5,642,012	5,563,325
Less: Intra-governmental Earned Revenue	39,993	33,095
Less: Public Earned Revenue	71,953	66,353
Total Securing America’s Borders Revenue	111,946	99,448
Securing and Expediting Trade		
Intra-governmental Costs	892,684	922,074
Public Costs	1,942,067	1,896,901
Total Securing and Expediting Trade Costs	2,834,751	2,818,975
Less: Intra-governmental Earned Revenue	20,976	15,770
Less: Public Earned Revenue	34,225	32,965
Total Securing and Expediting Trade Revenue	55,201	48,735
Securing and Expediting Travel		
Intra-governmental Costs	1,536,904	1,485,587
Public Costs	3,230,365	2,810,663
Total Securing and Expediting Travel Costs	4,767,269	4,296,250
Less: Intra-governmental Earned Revenue	33,889	26,997
Less: Public Earned Revenue	62,101	53,179
Total Securing and Expediting Travel Revenue	95,990	80,176
Intelligence and Targeting		
Intra-governmental Costs	254,224	254,015
Public Costs	708,296	603,500
Total Intelligence and Targeting Costs	962,520	857,515
Less: Intra-governmental Earned Revenue	3,470	3,027
Less: Public Earned Revenue	7,227	6,399
Total Intelligence and Targeting Revenue	10,697	9,426
Net Cost of Operations	\$13,932,718	\$13,298,280

**U.S. Customs and Border Protection
Notes to Financial Statements**

20. Sub-organization of Program Costs by Goal

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

Operating costs are summarized in the Consolidated Statement of Net Cost by programs as they support DHS missions 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.

The program goals identified in the following tables align with the "U.S. Department of Homeland Security (DHS) Strategic Plan for Fiscal Years (FY) 2015 – 2018". The DHS Strategic Plan is the result of the 2015 DHS Quadrennial Homeland Security Review, which updated the national homeland security strategy, including the homeland security missions and goals.

For the year ended September 30, 2016 (in thousands):

Schedule of Net Cost by CBP Program and DHS Mission	2016			
	Foster a Safe & Secure Homeland	Enforce & Administer Our Immigration Laws	Intra-Entity Eliminations	Consolidated Total
Securing America's Borders				
Gross Costs	\$ 6,172,528	\$ 49,244	\$ 579,760	\$ 5,642,012
Less: Earned Revenue	189,147	--	77,201	111,946
Net Program Costs	5,983,381	49,244	502,559	5,530,066
Securing and Expediting Trade				
Gross Costs	3,264,586	--	429,835	2,834,751
Less: Earned Revenue	640,387	--	585,186	55,201
Net Program Costs	2,624,199	--	(155,351)	2,779,550
Securing and Expediting Travel				
Gross Costs	3,340,438	2,211,389	784,558	4,767,269
Less: Earned Revenue	691,051	575,447	1,170,508	95,990
Net Program Costs	2,649,387	1,635,942	(385,950)	4,671,279
Intelligence and Targeting				
Gross Costs	1,017,987	--	55,467	962,520
Less: Earned Revenue	27,422	--	16,725	10,697
Net Program Costs	990,565	--	38,742	951,823
Net Cost of Operations	\$12,247,532	\$1,685,186	\$ --	\$13,932,718

**U.S. Customs and Border Protection
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For the year ended September 30, 2015 (in thousands):

Schedule of Net Cost by CBP Program and DHS Mission	2015			
	Foster a Safe & Secure Homeland	Enforce & Administer Our Immigration Laws	Intra-Entity Eliminations	Consolidated Total
Securing America's Borders				
Gross Costs	\$ 6,089,700	\$ 47,181	\$ 573,556	\$ 5,563,325
Less: Earned Revenue	174,261	--	74,813	99,448
Net Program Costs	5,915,439	47,181	498,743	5,463,877
Securing and Expediting Trade				
Gross Costs	3,224,255	--	405,280	2,818,975
Less: Earned Revenue	596,133	--	547,398	48,735
Net Program Costs	2,628,122	--	(142,118)	2,770,240
Securing and Expediting Travel				
Gross Costs	2,830,879	2,149,917	684,546	4,296,250
Less: Earned Revenue	619,155	543,785	1,082,764	80,176
Net Program Costs	2,211,724	1,606,132	(398,218)	4,216,074
Intelligence and Targeting				
Gross Costs	912,042	--	54,527	857,515
Less: Earned Revenue	22,360	--	12,934	9,426
Net Program Costs	889,682	--	41,593	848,089
Net Cost of Operations	\$11,644,967	\$1,653,313	\$ --	\$13,298,280

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.

Non-exchange Revenue reported under Budgetary Financing Sources includes Customs User Fees, International Registered Traveler Program Fees, 9-11 Response and Biometric Fees, Electronic System for Travel Authorization Fees, Land Border Inspection Fees, APEC Business Travel Card Fees, Immigration Enforcement 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 as Other, includes Merchandise Processing Fees, Immigration User Fees, and Customs and Border Protection Services at User Fee Facilities, which represent revenue reported in receipt accounts for which CBP does not have available budgetary authority. Also reported under Other Financing Sources as Other is the accounts receivable related portion of Customs User Fees.

**U.S. Customs and Border Protection
Notes to Financial Statements**

22. Apportionment Categories of New Obligations and Upward Adjustments: Direct vs. Reimbursable Obligations

Apportionment categories are determined in accordance with the guidance provided in OMB Circular No. 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).

2016	Apportionment Category A	Apportionment Category B	Exempt from Apportionment	Total
New Obligations and Upward Adjustments				
Direct	\$11,434,658	\$2,606,194	\$1,671,135	\$15,711,987
Reimbursable	254	2,068,879	--	2,069,133
Total New Obligations and Upward Adjustments	\$11,434,912	\$4,675,073	\$1,671,135	\$17,781,120
2015	Apportionment Category A	Apportionment Category B	Exempt from Apportionment	Total
New Obligations and Upward Adjustments				
Direct	\$10,831,263	\$2,341,905	\$2,681,527	\$15,854,695
Reimbursable	6,741	1,884,130	--	1,890,871
Total New Obligations and Upward Adjustments	\$10,838,004	\$4,226,035	\$2,681,527	\$17,745,566

23. Appropriations

As of September 30, 2016 and 2015, the Combined Statements of Budgetary Resources consist of appropriations totaling \$15.1 billion and \$15.6 billion, respectively. This differs from the Consolidated Statements of Changes in Net Position as of September 30, 2016 and 2015, which consist of appropriations received totaling \$8.8 billion and \$8.3 billion, respectively. This difference is due to CBP's non-entity activity, which as of September 30, 2016 and respectively, consists of \$1.7 billion and \$3.0 billion, respectively, for Refund and Drawback activity; \$4.2 billion and \$3.9 billion, for user/inspection fees and subsidy activity, that are not reported on the Consolidated Statements of Changes in Net Position; \$35.1 million and \$25.1 million, respectively, in rescissions and temporary reductions, that are reported separately in Other Adjustments on the Consolidated Statements of Changes in Net Position; and \$416.5 million and \$438.4 million, respectively, in non-expenditure transfers, that are reported separately 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, indefinite appropriation, Refunds and Drawbacks, 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. This appropriation is not subject to budgetary ceilings established by Congress. Refunds and drawbacks payable at year-end are not subject to funding restrictions. Refund payment funding is recognized as appropriations are used.

**U.S. Customs and Border Protection
Notes to Financial Statements**

24. Legal Arrangements Affecting the Use of Unobligated Balances

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

Included in the cumulative results of operations for special funds is \$1.1 billion at September 30, 2016, that represents CBP's authority to assess and collect user fees relating to merchandise and traveler 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 \$292.3 million, as of September 30, 2016 are restricted by law in their use to offset specific costs incurred by CBP.

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 United States Government

The table below documents the material differences between the FY 2015 Combined Statement of Budgetary Resources and the actual amounts reported for FY 2015 in the Budget of the United States Government. Since the FY 2016 financial statements are reported prior to the Budget of the United States Government, CBP is reporting for FY 2015 only. Typically, the Budget of the United States Government with the FY 2016 actual data is published in February of the subsequent year. Once published, the FY 2016 actual data will be available at the OMB website.

Differences between the SBR and the Budget of the United States Government (in millions):

2015	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	\$19,474	\$17,746	\$(4,104)	\$11,258
Differences:				
Expired Appropriations not Included in President's Budget	(245)	--	--	--
Refunds & Drawbacks (70X0505) not Included in President's Budget	(2,681)	(2,681)	--	(2,665)
Injured Domestic Industries(20X5688) not Included in President's Budget	(296)	(91)	--	(91)
Offsetting Receipts not Included in the Treasury Annual Report	--	--	(30)	4,104
Miscellaneous	2	--	1	--
Total Differences	(3,220)	(2,772)	(29)	1,348
Budget of the United States Government	\$16,254	\$14,974	\$(4,133)	\$12,606

Expired authority represents funding for which CBP no longer has budget authority. Refunds and Drawbacks and Injured Domestic Industries activity is exempt from apportionment per OMB Circular No. A-11 and therefore is not included in the President's Budget.

**U.S. Customs and Border Protection
Notes to Financial Statements**

26. Undelivered Orders, Unpaid, at the End of Period

An unpaid 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, 2016 and 2015 (in thousands):

	2016	2015
Unpaid	\$3,337,345	\$3,013,284
Upward/Downward Adjustment of Prior Period	(449,034)	(361,373)
Total Undelivered Orders at the End of Period	\$2,888,311	\$2,651,911

27. Custodial Revenues

Custodial Revenue consists of duties, user fees, excise taxes, fines and penalties, refunds and drawbacks overpayments and interest associated with import/export activity that have been established as specifically identifiable, legally enforceable claims 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. Revenue collections primarily result from current fiscal year activity. Current Taxes, Duties, and Trade Receivables, Net are collected within 90 days of the assessment.

Disbursements from the Refunds and Drawbacks Account for the fiscal years ended September 30, 2016 and 2015 (in thousands):

	2016	2015
Refunds	\$ 822,817	\$1,875,405
Drawbacks	1,044,246	1,105,638
Total	\$1,867,063	\$2,981,043

Amounts refunded during FY 2016 and 2015 identified by entry year consist of the following (in thousands):

Entry Year	2016
2016	\$1,020,040
2015	342,822
2014	148,724
2013	102,496
Prior Years	252,981
Total	\$1,867,063

Entry Year	2015
2015	\$1,659,107
2014	860,382
2013	181,950
2012	32,756
Prior Years	246,848
Total	\$2,981,043

The total amount of antidumping and countervailing duties varies from year to year, depending on decisions from the 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, 2016 and 2015, consisted of the following (in thousands):

	2016	2015
Antidumping and Countervailing Duty Refunds	\$196,797	\$194,626
Interest	10,685	10,514
Total	\$207,482	\$205,140

**U.S. Customs and Border Protection
Notes to Financial Statements**

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, 2016 and 2015 (in thousands).

	<u>2016</u>	<u>2015</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments	\$17,781,120	\$17,745,566
Less: Spending Authority from Offsetting Collections and Recoveries	2,560,449	2,454,923
Obligations Net of Offsetting Collections and Recoveries	15,220,671	15,290,643
Less: Offsetting Receipts	4,238,617	4,104,082
Net Obligations	<u>10,982,054</u>	<u>11,186,561</u>
Other Resources		
Transfers In/Out Without Reimbursement	13,670	7,121
Imputed Financing from Costs Absorbed by Others	584,550	599,562
Other	3,131,409	3,178,754
Net Other Resources Used to Finance Activities	<u>3,729,629</u>	<u>3,785,437</u>
Total Resources Used to Finance Activities	<u>14,711,683</u>	<u>14,971,998</u>
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	219,967	(53,603)
Resources that Fund Expenses Recognized in Prior Periods	80,597	19,547
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations	(1,083,740)	(823,793)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	488,879	517,996
Tax Revenue Refunds and Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	1,721,087	2,671,528
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>1,426,790</u>	<u>2,331,675</u>
Total Resources Used to Finance the Net Cost of Operations	<u>13,284,893</u>	<u>12,640,323</u>
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	29,430	9,985
Change in Actuarial FECA Liability, Legal Contingent Liabilities and Other	151,772	1,013
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	<u>181,202</u>	<u>10,998</u>
Components Not Requiring or Generating Resources		
Depreciation and Amortization	577,289	625,662
Revaluation of Assets or Liabilities	(36,738)	(23,930)
Other Non-budgetary Resources	(73,928)	45,227
Total Components of Net Cost of Operations that will Not Require or Generate Resources	<u>466,623</u>	<u>646,959</u>
Total Components of Net Cost of Operations that will Not Require or Generate Resources in the Current Period	<u>647,825</u>	<u>657,957</u>
Net Cost of Operations	<u>\$13,932,718</u>	<u>\$13,298,280</u>

Required Supplementary Information

This section presents CBP's required supplementary information including a combined statement of budgetary resources.



**U.S. Customs and Border Protection
Required Supplementary Information
(Unaudited)**

Deferred Maintenance and Repairs

CBP presents deferred maintenance and repairs in accordance with SFFAS No. 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32*. Deferred maintenance and repairs are maintenance and repairs that were not performed when they should have been or were scheduled to be performed, and were delayed until a future period. Maintenance and repairs include 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.

Deferred maintenance and repairs are reported for capitalized general PP&E including fully depreciated PP&E. Detailed facility condition assessments are conducted by a third party whereby all repair needs and scheduled replacements are identified. CBP prioritizes maintenance and repairs based on the importance to operational facilities for all CBP owned facilities. Acceptable condition standards are measured against a facilities condition index.

Deferred maintenance and repairs are not typically reported for personal property assets. Maintenance and repair programs are in place for all motor vehicles, vessels, and aircraft. These assets are considered mission-critical and as a result, maintenance and repairs are fully funded and performed immediately when identified. All other personal property assets are excluded from maintenance and repair programs due to immateriality.

A condition 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. 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 preventive 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. In some cases, this includes condemned or failed facilities. The increase in deferred maintenance and repairs in FY 2016 resulted from capital renewals not completed during the year and thus were converted to deferred maintenance and repairs. A capital renewal is a planned investment program for known cyclic repair and replacement requirements of major building systems and components that extend the life and retain useable condition of facilities and systems. If capital renewals remain unfunded, deferred maintenance and repairs will continue to increase. A summary of deferred maintenance (in thousands), by asset category, at the beginning and end of FY 2016 follows:

	Condition Assessment	Deferred Maintenance and Repairs	
		2016 Ending Balance	2016 Beginning Balance
Building and Structures	Poor to Good	\$249,829	\$224,561
Multi-Use Heritage Assets	Poor to Good	32,392	32,033
Total		\$282,221	\$256,594

**U.S. Customs and Border Protection
Required Supplementary Information
(Unaudited)**

Combined Statement of Budgetary Resources (SBR)

The total Budgetary Resources of \$19.3 billion for FY 2016 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.

Combined Statement of Budgetary Resources by Major Budget Accounts (in thousands):

As of September 30, 2016 (in thousands):	2016						Total
	Salaries & Expenses	Air & Marine	Border Security Fencing, Infrastructure & Technology (BSFIT)	Construction	Automation Modernization	Other	
Budgetary Resources							
Unobligated Balance Brought Forward, October 1	\$ 320,742	\$ 76,627	\$395,183	\$108,287	\$ 139,988	\$ 687,687	\$ 1,728,514
Recoveries of Prior Year Unpaid Obligations	240,365	47,787	87,872	46,890	29,641	13,457	466,012
Other Changes in Unobligated Balance	(27,164)	1	(6,972)	(232)	1	--	(34,366)
Unobligated Balance from Prior Year Budget Authority, Net	533,943	124,415	476,083	154,945	169,630	701,144	2,160,160
Appropriations	9,056,813	807,557	411,310	341,628	823,040	3,624,304	15,064,652
Spending Authority from Offsetting Collections	2,009,119	17,894	2	--	35,131	32,291	2,094,437
Total Budgetary Resources	\$11,599,875	\$949,866	\$887,395	\$496,573	\$1,027,801	\$4,357,739	\$19,319,249
Status of Budgetary Resources							
New Obligations and Upward Adjustments (Note 23)	\$11,431,390	\$865,811	\$622,155	\$433,902	\$ 907,708	\$3,520,154	\$17,781,120
Unobligated Balance, End of Year:							
Apportioned, Unexpired Accounts	26,509	63,553	232,537	51,974	91,493	494,512	960,578
Unapportioned, Unexpired Accounts	21,200	9,734	17,786	10,697	5,181	343,073	407,671
Unexpired Unobligated Balance, End of Year	47,709	73,287	250,323	62,671	96,674	837,585	1,368,249
Expired Unobligated Balance, End of Year	120,776	10,768	14,917	--	23,419	--	169,880
Total Unobligated Balance, End of Year	168,485	84,055	265,240	62,671	120,093	837,585	1,538,129
Total Budgetary Resources	\$11,599,875	\$949,866	\$887,395	\$496,573	\$1,027,801	\$4,357,739	\$19,319,249

**U.S. Customs and Border Protection
Required Supplementary Information
(Unaudited)**

2016

	Salaries & Expenses	Air & Marine	BSFIT	Construction	Automation Modernization	Other	Total
Change in Obligated Balance:							
Unpaid Obligations:							
Unpaid Obligations Brought Forward, October 1 (gross)	\$ 1,388,407	\$ 452,428	\$ 550,565	\$ 439,838	\$ 448,690	\$ 295,298	\$ 3,575,226
New Obligations and Upward Adjustments (Note 23)	11,431,390	865,811	622,155	433,902	907,708	3,520,154	17,781,120
Outlay (Gross)	(11,126,641)	(772,962)	(451,881)	(321,779)	(871,766)	(3,441,170)	(16,986,199)
Recoveries of Prior Year Unpaid Obligations	(240,365)	(47,787)	(87,872)	(46,890)	(29,641)	(13,457)	(466,012)
Unpaid Obligations, End of Year (Gross)	1,452,791	497,490	632,967	505,071	454,991	360,825	3,904,135
Uncollected Payments:							
Uncollected Customer Payments from Federal Sources Brought Forward from October 1	(116,227)	(6,260)	--	--	(16,034)	(2,695)	(141,216)
Change in Uncollected Customer Payments from Federal Sources	(29,204)	(2,374)	--	--	(4,212)	1,106	(34,684)
Uncollected Customer Payments from Federal Sources, End of Year	(145,431)	(8,634)	--	--	(20,246)	(1,589)	(175,900)
Obligated Balance, Start of Year	\$ 1,272,180	\$ 446,168	\$ 550,565	\$ 439,838	\$ 432,656	\$ 292,603	\$ 3,434,010
Obligated Balance, End of Year	\$ 1,307,360	\$ 488,856	\$ 632,967	\$ 505,071	\$ 434,745	\$ 359,236	\$ 3,728,235
Budget Authority and Outlays, Net:							
Budget Authority, Gross	\$ 11,065,932	\$ 825,451	\$ 411,312	\$ 341,628	\$ 858,171	\$ 3,656,595	\$ 17,159,089
Actual Offsetting Collections	(1,979,915)	(15,521)	(2)	--	(30,920)	(33,397)	(2,059,755)
Change in Uncollected Customer Payments from Federal Sources	(29,204)	(2,374)	--	--	(4,212)	1,106	(34,684)
Recoveries of Prior Year Paid Obligations		1			1		2
Budget Authority, Net	\$ 9,056,813	\$ 807,557	\$ 411,310	\$ 341,628	\$ 823,040	\$ 3,624,304	\$ 15,064,652
Outlays, Gross	\$ 11,126,641	\$ 772,962	\$ 451,881	\$ 321,779	\$ 871,766	\$ 3,441,170	\$ 16,986,199
Actual Offsetting Collections	(1,979,915)	(15,521)	(2)	--	(30,920)	(33,397)	(2,059,755)
Outlays, Net	9,146,726	757,441	451,879	321,779	840,846	3,407,773	14,926,444
Distributed Offsetting Receipts	--	--	--	--	--	(4,238,617)	(4,238,617)
Agency Outlays, Net	\$ 9,146,726	\$ 757,441	\$ 451,879	\$ 321,779	\$ 840,846	\$ (830,844)	\$ 10,687,827

**U.S. Customs and Border Protection
Required Supplementary Information
(Unaudited)**

Custodial Activity

Substantially all duty, tax and fee revenues collected by CBP are remitted to various General Fund accounts maintained by Treasury and the 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 2016 and 2015, CBP had the legal right to collect \$3.0 billion and \$3.2 billion of receivables, respectively. In addition, there were \$3.3 billion and \$2.1 billion representing records still in the protest phase for FY 2016 and 2015, respectively. CBP recognized as write-offs \$38.5 million and \$37.2 million of assessments that the Department has statutory authority to collect at September 30, 2016 and 2015, respectively, but has no future collection potential. Most of this amount represents trade receivables.

OFFICE OF INSPECTOR GENERAL

**Independent Auditors'
Report on U.S. Customs
and Border Protection's
Fiscal Year 2016
Consolidated Financial
Statements**



**Homeland
Security**

**February 6, 2017
OIG-17-36**



DHS OIG HIGHLIGHTS

Independent Auditors' Report on U.S. Customs and Border Protection's Fiscal Year 2016 Consolidated Financial Statements

February 6, 2017

Why We Did This Audit

U.S. Customs and Border Protection (CBP) prepares annual financial statements to comply with the Office of Management and Budget's requirements. We contracted with KPMG LLP to audit CBP's fiscal year 2016 financial statements to express an opinion over the fairness of presentation of those statements.

What We Recommend

KPMG LLP made 18 recommendations to improve internal control over financial reporting and increase the reliability of financial systems and operations. These recommendations address the five significant deficiencies identified in the report.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

The independent public accounting firm KPMG LLP (KPMG) has issued an unmodified (clean) opinion on CBP's FY 2016 consolidated financial statements. In the independent auditors' opinion, the financial statements present fairly, in all material respects, CBP's financial position as of September 30, 2016.

The report identifies five significant deficiencies in internal control, three of which are considered material weaknesses. The material weaknesses are in information technology controls and financial systems functionality; financial reporting; and refunds and drawbacks of duties, taxes, and fees. The two other significant deficiencies in internal control are related to entity-level controls and custodial revenue-entry process.

Management's Response

CBP concurred with the three material weaknesses and the two significant deficiencies identified in the report and indicated that management will continue to work to resolve all identified weaknesses.

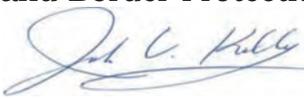
**OFFICE OF INSPECTOR GENERAL**

Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

February 6, 2016

MEMORANDUM FOR: Jaye M. Williams
Chief Financial Officer
U.S. Customs and Border Protection

FROM: John V. Kelly 
Deputy Inspector General

SUBJECT: *Independent Auditors' Report on U.S. Customs and Border Protection's Fiscal Year 2016 Consolidated Financial Statements*

Attached for your action is our final report, *Independent Auditors' Report on U.S. Customs and Border Protection's Fiscal Year 2016 Consolidated Financial Statements*. We have incorporated the formal comments from U.S. Customs and Border Protection (CBP) in the final report.

The report presents the results of CBP's consolidated financial statements audits for fiscal years 2016 and 2015. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audits. KPMG concluded that CBP's consolidated financial statements as of and for the years ended September 30, 2016 and 2015 are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.

The independent auditors' report also contains observations and 18 recommendations related to internal control weaknesses that are considered significant deficiencies and are required to be reported in the financial statements audit report. Your office concurred with the five significant deficiencies in internal control presented below, the first three of which are considered to be material weaknesses:

Significant Deficiencies in Internal Control

- A. Information Technology Controls and Financial Systems Functionality
- B. Financial Reporting
- C. Refunds and Drawback of Duties, Taxes, and Fees
- D. Entity-Level Controls
- E. Custodial Revenue - Entry Process

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OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

KPMG is responsible for the attached independent auditors' report dated January 18, 2017, and the conclusions expressed in the report. To ensure the quality of the audit work performed, we evaluated KPMG's qualifications and independence, reviewed the approach and planning of the audit, monitored the progress of the audit at key points, reviewed and accepted KPMG's audit report, and performed other procedures that we deemed necessary. Additionally, we provided oversight of the audit of financial statements and certain accounts and activities conducted at CBP. Our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Maureen Duddy, Deputy Assistant Inspector General for Audits, at (617) 565-8723.

Attachment



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General
U.S. Department of Homeland Security

Commissioner
U.S. Customs and Border Protection

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Customs and Border Protection (CBP), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements 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 Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Customs and Border Protection as of September 30, 2016 and 2015, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the *Performance and Accountability Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information in the Introduction, Performance Section, Message from the Chief Financial Officer, and Other Information, as reflected in CBP's *Fiscal Year 2016 Performance and Accountability Report*, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2016, we considered CBP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of CBP's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been



identified. However, as described in the accompanying exhibits, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 a combination of deficiencies, in internal control over financial reporting, 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. The following deficiencies described in the accompanying Exhibit I have been identified to be material weaknesses.

- A. Information Technology Controls and Financial Systems Functionality
- B. Financial Reporting
- C. Refunds and Drawbacks of Duties, Taxes, and Fees

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 following deficiencies described in the accompanying Exhibit II to be significant deficiencies.

- D. Entity-Level Controls
- E. Custodial Revenue - Entry Process

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CBP's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02. With respect to other matters, we noted the Department of Homeland Security (DHS) is currently reviewing two potential violations of the *Antideficiency Act*. As of the date of this report, no final noncompliance determination has been made for these incidents.

CBP's Response to Findings

CBP's response to the findings identified in our audit are attached in Appendix A. CBP's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of CBP's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
January 18, 2017

Independent Auditors' Report

Introduction to Exhibits on Internal Control over Financial Reporting

The internal control weaknesses in financial reporting presented herein were identified during our audit of the U.S. Customs and Border Protection (CBP) consolidated financial statements as of and for the year ended September 30, 2016. Our findings are presented in two Exhibits:

Exhibit I Findings that individually or in aggregate are considered material weaknesses in internal control over financial reporting affecting CBP's consolidated financial statements.

Exhibit II Findings that individually or in aggregate are considered significant deficiencies in internal control over financial reporting, which are less severe than a material weakness, yet important enough to merit attention of CBP's management and others in positions of CBP oversight.

Criteria Index of Financial Reporting and Internal Control Criteria

The determination of which findings rise to the level of a material weakness or significant deficiency is based on an evaluation of how identified deficiencies, considered in aggregate, may affect CBP's consolidated financial statements as of and for the year ended September 30, 2016.

We have reported the following three material weaknesses and two significant deficiencies at CBP as of and for the year ended September 30, 2016:

Material Weaknesses (Exhibit I):

Finding	Financial Statement Area
I-A	Information Technology Controls and Financial Systems Functionality
I-B	Financial Reporting
I-C	Refunds and Drawbacks of Duties, Taxes, and Fees

Significant Deficiencies (Exhibit II):

Finding	Financial Statement Area
II-D	Entity-Level Controls
II-E	Custodial Revenue - Entry Process

The criteria supporting our findings, such as references from technical accounting standards, various rules and regulations, including requirements issued by OMB and the U.S. Treasury, and internal Department of Homeland Security (DHS) and CBP directives, are presented in the *Index of Financial Reporting and Internal Control Criteria* behind Exhibit II.

Independent Auditors' Report

Exhibit I – Material Weaknesses in Internal Control over Financial Reporting

I-A Information Technology Controls and Financial Systems Functionality

Background:

Information technology controls are a critical subset of an entity's internal control. They are typically categorized as either general information technology controls (GITCs) or business process application controls (application controls). GITCs operate over all or a large portion of systems and represent the foundation of an Information Technology (IT) control structure. They are applied at the entity-wide, system, and application level, and include controls over security management, access, configuration management, segregation of duties, and contingency planning. Effective GITCs are necessary to create the foundation for the effective operation of application controls. Application controls are those controls that directly relate to specific IT applications and ensure the complete and accurate processing of data.

During our fiscal year (FY) 2016 assessment of GITCs and business process application controls, performed in connection with the financial statement audit, we determined that CBP made progress in remediating IT findings that were reported in FY 2015. However, in some cases, the timing of the remediation over certain pervasive findings was not present for the entire fiscal year, which impacted the ability to rely on application controls and system generated reports. In addition, new findings were identified in FY 2016.

Conditions Related to GITCs:

Due to an expanded scope, we identified a greater number of control deficiencies in GITCs this fiscal year as compared to prior years, which represent an elevated risk of misstatement of the CBP financial statements. In summary, we identified the following deficiencies in GITCs that, in aggregate, resulted in a material weakness:

1. *Access Controls:*

- Policies and procedures for managing and monitoring access to key financial applications and underlying system software components were not consistently or completely developed and formally documented.
- Initial authorization and periodic recertification of application, database, and operating system user, service, and generic accounts (including emergency, temporary, developer, and migrator access) were inadequate, inconsistent, or in violation of the principles of least privilege and segregation of duties.
- Technical controls over logical access to key financial applications and underlying system software components were not consistently implemented in accordance with DHS requirements. Weaknesses in technical controls included password and inactivity requirements, and account and data protection security configurations.
- Controls over the generation, review, analysis, and protection of application, database, and operating system audit logs were not fully implemented or were not consistently performed.
- Access privileges for transferred or terminated employees and contractors were not consistently or timely removed from financial and general support systems. Controls related to review and revocation of system access were not consistently implemented or finalized.

Independent Auditors' Report**Exhibit I – Material Weaknesses in Internal Control over Financial Reporting**

2. Configuration Management:

- Vulnerability management activities were not consistently performed. Weaknesses in the following activities were identified: performing internal scans of financial applications and system software, monitoring vulnerabilities identified, and implementing vendor-recommended patches to address known vulnerabilities.
- Configuration management activities were not consistently performed. Weaknesses in the following activities were identified: authorizing changes prior to implementation, and maintaining sufficient documentation over test plans, test results, development authorization, and separation of the developers and migrators.

3. Segregation of Duties:

- Implementation of segregation of duties for IT and financial management personnel with access to financial systems across several platforms and environments (including development and production environments) was inadequate or incomplete.

4. Contingency Planning:

- Controls over the performance of daily and weekly system backups were not fully implemented.

Conditions Related to Financial Systems Functionality:

We also evaluated and considered the impact of system functionality on financial reporting. In recent years, we identified limitations in the functionality of CBP's financial systems that inhibit CBP's ability to implement and maintain effective internal control, and to effectively and efficiently process and report financial data. Certain key financial and feeder systems have not been substantially updated since being inherited from legacy agencies over a decade ago.

Our observations related to pervasive functionality issues noted for certain CBP systems are described below:

- System software supporting key financial applications, feeder systems, and general support systems lacked the required functionality to implement effective controls. This resulted in unmitigated vulnerabilities that exposed underlying data to potential unauthorized and undetected access and exploitation.
- GITCs and financial process areas were implemented or supported by manual processes, outdated or decentralized systems, or records management processes with limited automated capabilities. These limitations introduced a high risk of error and resulted in inconsistent, incomplete, or inaccurate control execution and supporting documentation.

In addition to these general areas, system limitations contributed to deficiencies identified in multiple financial process areas across CBP. For example, system configurations and posting logic deficiencies limited the effectiveness of controls to accurately record certain activity at the transaction level or prevent or detect and correct excessive drawback claims. In some cases, CBP implemented manual processes to compensate for these limitations. However, these manual processes were more prone to error than automated processes and increased the risk that financial data and transactions were improperly recorded in the respective systems.

Independent Auditors' Report
Exhibit I – Material Weaknesses in Internal Control over Financial Reporting

Cause:

The control deficiencies described in this finding stem from numerous systemic root causes. In many cases, inadequately designed and implemented, or ineffectively operating controls were caused by the following: timing of remediation efforts; resource limitations; ineffective or inadequate management oversight; lack of awareness and training; reduced efforts on remediating legacy system processes due to competing priorities related to the modernization of the financial information system; the complex, highly interrelated yet decentralized nature of systems and system components; a lack of communication between CBP offices regarding GITC ownership; a lack of continual self-review and risk assessments performed over GITCs; and error-prone manual processes.

Effect:

Deficiencies related to access controls and segregation of duties increase the risk that current employees, separated employees, or contractors may obtain unauthorized or inappropriate access to financial and support systems or data. Such access could lead to unauthorized activities or inappropriate disclosures of sensitive data. Deficiencies related to configuration management increase the risk that unauthorized or inappropriate changes to systems will be applied and go undetected by management, resulting in lower assurance that information systems will operate as intended and that data be reliable, valid, and complete. Deficiencies related to contingency planning increase the risk that data availability will be impacted, resulting in potential loss of transactional data or interrupted operations.

The conditions supporting our findings collectively limit CBP's ability to process, store, and report financial data in a manner that ensures accuracy, confidentiality, integrity, and availability. Some of the weaknesses could result in material errors in CBP's financial data that are not detected in a timely manner through the normal course of business. Because of the presence of IT control and financial system functionality weaknesses, there is added pressure on mitigating controls to operate effectively. Such mitigating controls often were not implemented (see **Finding I-B, Financial Reporting**). However, when implemented, mitigating controls often were more manually focused, increasing the risk of human error that could materially affect the consolidated financial statements. Deficiencies identified related to the design, implementation, and operating effectiveness of manual mitigating controls contributed to the findings reported in Exhibits I and II. Furthermore, due to these GITC deficiencies, we were unable to rely on application controls and information produced by the entity and used by management in the operation of certain key manual controls at CBP.

CBP management recognizes the need to modernize its financial systems and strengthen controls over its legacy systems. Until legacy IT issues are addressed and updated IT solutions are implemented, CBP is reliant on compensating controls and other complex manual workarounds to support CBP's IT environment and financial reporting processes.

Criteria:

We do not present all relevant criteria for IT controls and financial systems functionality in *Index of Financial Reporting and Internal Control Criteria*, after Exhibit II due to the sensitive nature of CBP's systems. Relevant criteria is provided in limited distribution (For Official Use Only) Notices of Findings and Recommendations (NFRs) and a separate IT management letter (ITML) to CBP and DHS management.

Recommendations:

We recommend that CBP management implement the necessary improvements to CBP's financial management systems and supporting IT security controls as they continue their financial systems modernization initiative. Specific, more detailed recommendations were provided in limited distribution NFRs and a separate ITML to CBP and DHS management.

Independent Auditors' Report**Exhibit I – Material Weaknesses in Internal Control over Financial Reporting**

I-B Financial Reporting**Background:**

Financial reporting relates to the preparation of financial information to be included in the consolidated financial statements and related disclosures and includes the activities for initiation, authorization, recording, and processing of transactions into the general ledger. It includes procedures over the selection and application of generally accepted accounting principles (GAAP) and accounting policies, as well as management's oversight of the process.

Conditions:

In FY 2016, the following financial reporting control deficiencies were identified that, collectively, were deemed a material weakness in internal control over financial reporting.

We noted that CBP:

1. Did not have effective controls to ensure that the information contained in the *Performance and Accountability Report* agreed to CBP's underlying accounting records.
2. Did not maintain effective internal control related to service organizations. This included the failure to perform effective reviews of service organization control (SOC) reports, as well as the failure to consider complementary end user controls identified in the SOC reports.
3. Lacked fully effective controls to ensure the proper classification of unobligated balances as apportioned or unapportioned.
4. Did not design and implement sufficient controls surrounding year-end reporting. Specifically, CBP did not properly identify subsequent events, such as changes to taxes, duties, and trade receivables. Additionally, CBP did not ensure the proper classification of bulk purchases as capital expenditures rather than as operating expenses.
5. Did not have effective controls related to the preparation and review of manual journal entries, including underlying information.
6. Did not have effective controls over the input and review of seized and forfeited information at the port level. In addition, controls over the presentation of disclosures related to seized and forfeited items were not designed at a level of precision to detect material misstatements.
7. Did not have effective process level controls surrounding the preparation and review of the contingent legal liability schedule, non-GAAP analysis of lease related transactions, and reporting of certain adjustments to the DHS Office of Financial Management.

Cause/Effect:

Controls over the preparation and review of the *Performance and Accountability Report* were not operating effectively. In some cases, CBP did not properly identify the necessary controls to mitigate financial reporting risks. In other instances, CBP personnel did not follow the existing policies or procedures. Further, CBP did not perform a sufficient risk assessment to determine areas that may require adjustments at year-end due to their nature.

In addition, as a complex entity with a high volume and a high dollar amount of transactions, CBP lacks a sufficient number of skilled accounting personnel to oversee and monitor the financial reporting processes. Deficiencies in financial reporting resulted in significant adjustments to the current period consolidated financial statements and disclosures. Despite these control deficiencies, CBP was able to adequately support its FY 2016 account balances.

Independent Auditors' Report

Exhibit I – Material Weaknesses in Internal Control over Financial Reporting

Criteria:

Presented in Index of Financial Reporting and Internal Control Criteria, after Exhibit II.

Recommendations:

We recommend that CBP:

1. Enforce existing procedures for the preparation and review of the *Performance and Accountability Report* and update existing policies and procedures to include additional reviews.
2. Appropriately align knowledgeable resources to assess SOC reports and design and implement formal policies and procedures for identification and mapping of the required complementary end user controls to CBP's internal control process.
3. Establish new, or improve existing policies, procedures, and internal controls to ensure proper classification of unobligated balances as apportioned or unapportioned.
4. Establish new, or improve existing policies, procedures, and internal controls to ensure subsequent events with potential financial reporting implications are identified (through development of a "look-back" analysis, evaluation of specific items, and/or comparison of available data sets).
5. Enforce existing policies, procedures, and related internal controls to ensure that the review of manual journal entries is sufficiently precise to identify errors, and that the underlying information utilized in the preparation of the entries is complete and accurate.
6. Enforce existing policies, procedures, and controls at the port level to ensure information recorded in the system of record for seized and forfeited items is complete and accurate. In addition, improve existing controls surrounding the review of financial disclosures related to seized and forfeited narcotics to ensure proper reporting.
7. Enforce existing procedures over certain process-level controls, including preparation and review of contingent legal liability schedule, non-GAAP analysis, and reporting of certain adjustments to DHS.
8. Attract and deploy additional skilled resources and align them to financial reporting oversight roles.

I-C Refunds and Drawbacks of Duties, Taxes, and Fees

Background:

CBP performs an important revenue collection function for the Federal government. Refund and drawback claims are a remittance, in whole or in part, of duties, taxes, or fees previously paid by an importer. Refund claims typically occur when an importer overpays the duties, taxes or fees associated with imported goods. Reasons for a refund claim include but are not limited to, duplicate payment, incorrect duty rate and settlement of court cases. Drawback claims typically occur when 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. The *Trade Facilitation and Trade Enforcement Act of 2015* (TFTEA) contains provisions for drawback modernization that simplify the rules for determining if exports are eligible for refunds, expand the timeframe for drawback claims, and eliminate certain documentation requirements.

In 2014, the President issued an executive order that requires full implementation of the International Trade Data System by December 2016. In order to meet this requirement, CBP has been transitioning various trade functions, including quota and cargo release, from the Automated Commercial System (ACS), which is the current IT system for custodial collections, to the Automated Commercial Environment

Independent Auditors' Report**Exhibit I – Material Weaknesses in Internal Control over Financial Reporting**

(ACE) system. The remaining functions, including the recording of collections and payment of drawback claims, are scheduled for migration to ACE in FY 2017.

Many of the conditions cited below have existed for several years. Management has stated in the past that the timeframe for remediation of these conditions is dependent on successful implementation of IT system upgrades and necessary legislative changes. The TFTEA provisions contain the statutory changes CBP sought and provides for a path forward to implement the necessary system enhancements to strengthen CBP's internal controls over drawback claims and underlying imports. The pending system development and implementation of TFTEA provisions will require policy decisions, regulatory updates, and issuance of policies and procedures to balance requirements for implementing TFTEA and ACE development with the needs and capabilities of the Trade community to adapt to those requirements. CBP has two years from the date of enactment of the TFTEA to fully implement all provisions of the law, leading to an effective date of February 24, 2018. The new law also allows an additional transition year under which drawback claimants may submit claims under either existing regulations or the updated regulations, effectively making the final implementation of drawback simplification February 24, 2019.

Conditions:

We identified the following internal control deficiencies related to refunds and drawbacks of duties, taxes, and fees that, collectively, resulted in a material weakness in internal control for financial reporting:

1. The current entry/collections system lacked automated controls necessary to prevent, or detect and correct, excessive drawback claims. The programming logic did not link drawback claims to imports at a sufficiently detailed level. In addition, the system did not have the capability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries and export documentation upon which the drawback claim was based. Further, the system had not been configured to restrict drawback claims to 99 percent of each entry summary, in accordance with regulations.
2. Manual drawback review policies did not require drawback specialists to sufficiently review prior drawback claims against a selected import entry to determine whether, in the aggregate, an excessive amount was claimed against import entries.
3. Documentation retention periods were not appropriate to (1) ensure that support for drawback transactions was maintained for the entire claim window, and (2) ensure support for importers qualifying for accelerated filer status was maintained.
4. The automated control designed to prevent a claimant from exceeding the continuous bond amount on file did not operate effectively.
5. Existing policies and procedures were not consistently followed for review and verification of the check proof listing report.

Cause/Effect:

The mandated timeframe for the transition from ACS to ACE and resource constraints prevented full development of policies and procedures before the implementation of operational changes. Failure to fully establish and define control environments could lead to potential misstatements to the balance of taxes, duties, and trade receivables, net and total cash collections on the statement of custodial activities.

IT system functionality and outdated IT systems contribute to the weaknesses identified above. Refer to **Finding I-A, Information Technology Controls and Financial Systems Functionality**. ACS does not provide the necessary functionality to prevent the overpayment of drawback claims. CBP plans to replace ACS with ACE in FY 2017. However, until such implementation occurs, CBP does not currently have sufficient resources to effectively perform compensating manual controls over drawback claims. TFTEA simplifies

Independent Auditors' Report
Exhibit I – Material Weaknesses in Internal Control over Financial Reporting

the statutes that govern the drawback process further reducing the need for manual controls. However, it does not take effect until February 2018. The length of the drawback claim lifecycle often extends beyond the documentation retention period, which is set by statute. Until effective automated and manual controls are implemented over the drawback process, CBP may be subject to financial losses due to excessive drawback claims. In addition, drawback claims are governed by the laws and regulations in effect at the time of filing. As the length of the drawback lifecycle can last several years, it will take several years for claims existing prior to the implementation of TFTEA to be completed.

Criteria:

Presented in Index of Financial Reporting and Internal Control Criteria, after Exhibit II.

Recommendations:

We recommend that CBP:

1. Continue with the scheduled implementation of refund and drawback in ACE.
2. Continue to enhance the manual controls to detect or prevent excessive drawback claims, including after the implementation of TFTEA, as current claims will take several years to be processed through the drawback lifecycle.
3. Implement relevant drawback provisions of TFTEA, which will take effect on February 24, 2018.
4. Implement policies and procedures to ensure supporting documentation related to accelerated filer status is maintained.
5. Update and redistribute guidance to necessary personnel regarding the appropriate CBP directives to ensure consistent performance of controls across all locations.

Independent Auditors' Report**Exhibit II – Significant Deficiencies in Internal Control over Financial Reporting**

II-D Entity-Level Controls***Background and Criteria:***

Entity-level controls are controls that have an overarching or pervasive effect on an entity. They include the entity's culture, values, and ethics as well as the attitudes, awareness, and actions of management and those charged with governance concerning the entity's internal control and its importance. Entity-level controls reside in all five components of internal control – control environment, risk assessment, control activities, monitoring, and information and communications – as defined by the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States. These controls must be effectively designed, implemented, and operating together in an integrated manner to create and sustain an organizational structure that is conducive to reliable financial reporting.

The conditions below should be read in conjunction with **Finding I-A, Information Technology Controls and Financial Systems Functionality**; **Finding I-B, Financial Reporting**; **Finding I-C, Refunds and Drawbacks of Duties, Taxes, and Fees**; and **Finding II-E, Custodial Revenue - Entry Process**.

Conditions, Cause/Effect, and Recommendations:

During our audit we identified certain control deficiencies for which underlying causes were similar and pervasive throughout CBP. The resulting recommendations, which were provided to correct the deficiencies, are based on necessary improvements needed in management's risk assessment process, communication practices, and monitoring activities. Accordingly, we deemed the entity-level control deficiencies described below to, collectively, merit the attention of those charged with governance.

Control Environment:

During our audit we identified weaknesses in CBP's control environment, which serves as the foundation of an internal control system. As a result, individual process-level controls have a greater risk for not being designed, implemented appropriately or operating effectively. CBP's control environment should be improved to ensure:

- Formalized reporting structures are in place, including when undergoing an organizational realignment.
- Accounting policies and standard operating procedures are formally documented, complete, and revised in a timely manner.
- Existing management directives are sufficiently specific that controls are performed consistently at all locations.

Risk Assessments:

CBP does not have a mature risk assessment process. As a result, events and transactions that have a greater likelihood of error do not always receive an appropriate level of attention. Risk assessments should be performed annually and updated during the year as needed. Examples of areas that should be addressed annually and updated periodically are:

- Needs for technical and resource support to remediate severe control deficiencies and continually evaluate areas where material financial statement errors could occur and not be identified and corrected timely.
- Training needs assessments for personnel to match skills with roles and responsibilities and identify gaps that could lead to financial statement errors.

Independent Auditors' Report**Exhibit II – Significant Deficiencies in Internal Control over Financial Reporting**

- Identification of financial accounts and transactions that are susceptible to error due to weaknesses in IT general controls and IT systems functionality. Refer to **Finding I-A, Information Technology Controls and Financial Systems Functionality**.
- Robust continuous monitoring and testing of IT general controls necessary to identify weaknesses, assess the resulting risks created by IT deficiencies, and respond to those risks through compensating controls.

Information and Communications:

Communications within CBP between headquarters, program offices, and field personnel should be improved to ensure:

- Roles and responsibilities of program and field personnel that provide key financial information are defined and that those personnel understand and comply with policies.
- Monitoring across CBP, an organization that is large and complex with decentralized operations, to verify that internal control over financial reporting and compliance with direct and material laws and regulations have been properly designed and implemented and are operating effectively across the organization.

Monitoring Controls:

CBP should design continuous monitoring controls to ensure transactions with a higher risk of error are adequately examined. Detective controls intended to compensate or mitigate weak preventive or process-level controls (e.g., management review controls of the consolidated financial statements) are not always designed at a level of precision to identify significant errors or operating effectively. Consequently, errors, or a combination of errors, in the consolidated financial statements could go undetected.

CBP should continue to progress in its identification and remediation of control deficiencies through executive level support for strong internal controls. Enhancement of internal testing of both financial and IT controls and progress in resolving weaknesses identified will be critical to sustaining auditable consolidated financial statements in the future. These conditions were further evidenced through control deficiencies cited at **Finding I-B, Financial Reporting**.

II-E Custodial Revenue - Entry Process**Background:**

CBP collected \$40.3 billion in custodial revenue in FY 2016. The majority of CBP's collections are from merchandise, which enters the United States from foreign ports of origin, against which CBP assesses import duties, taxes, and fees. Receipts of import duties and related refunds are presented in the statement of custodial activity. To ensure the subsequent collection of these duties, taxes, and fees, CBP requires bonds from parties that import merchandise into the United States. The assessment of liquidated damages against a bond serves to promote compliance with laws and regulations.

Independent Auditors' Report

Exhibit II – Significant Deficiencies in Internal Control over Financial Reporting

Conditions:

We identified the following internal control deficiencies related to custodial activities at CBP that we deemed to, collectively, merit the attention of those charged with governance:

1. Management did not fully implement and communicate policies and procedures that identified risk points and key controls for the entry functions that were transitioned to ACE and updates that were required due to changes in governing statutes during FY 2016.
2. Existing policies and procedures (1) were not consistently followed for review and verification of duties within entry edit and exception reports; (2) did not clearly establish consistent procedures for completing and documenting the review of the entry edit and exception and Budget Clearing Account (BCA) reports; and (3) lacked a requirement for locations to implement controls to ensure the completeness and accuracy of alternative reports used when locations elected to modify the standard system-generated reports.
3. In addition to deficiencies in the design and implementation of controls over the BCA report, we also identified specific instances of untimely removal from the BCA collections related to fines, penalties, and forfeitures receivables and liabilities for deposit accounts.
4. Controls over the review of Single Transaction Bonds (STBs) were not operating effectively. The system for processing STBs was operational for the entire fiscal year, however, it was not designed to replace the requirements for a manual review. Additionally, CBP was unable to provide documentation to support the manual review of bonds processed through the system.

Cause/Effect:

Policies and procedures over the review of entry edit and exception and BCA reports were not sufficient to ensure controls were performed consistently at all locations during FY 2016. In addition, existing policies and procedures do not require timely coordination with all applicable parties. Failure to consistently adhere to existing policies and procedures for review and verification of reports may result in a potential misstatement to the balance of taxes, duties, and trade receivables, net and total cash collections on the statement of custodial activities. Inadequate controls could result in the failure of CBP to identify amounts that are due to the Treasury General Fund.

CBP did not consistently adhere to policies and procedures for the review of STBs, and CBP management did not develop and communicate policies and procedures to uniformly perform and document the manual review of STBs housed in the eBonds module of ACE. Failure to consistently adhere to existing policies and procedures for the review of STBs could lead to loss of revenue due to uncollected duties, taxes, and fees.

The mandated timeframe for the transition from ACS to ACE and resource constraints prevented full development of policies and procedures before the implementation of operational changes. Failure to fully establish and define control environments could lead to potential misstatements to the balance of taxes, duties, and trade receivables, net and total cash collections on the statement of custodial activities.

Criteria:

Presented in Index of Financial Reporting and Internal Control Criteria, after Exhibit II.

Independent Auditors' Report
Exhibit II – Significant Deficiencies in Internal Control over Financial Reporting

Recommendations:

We recommend that CBP:

1. Update and redistribute guidance to necessary personnel regarding the appropriate CBP directives to ensure consistent performance of controls across all locations.
2. Fully implement the automated controls over STB processing.
3. Develop policies and procedures that clearly identify risks, as well as controls to mitigate those risks for all trade functions transitioning to ACE.
4. Provide training to all personnel on new policies to ensure consistent implementation at decentralized locations.

Independent Auditors' Report
Index of Financial Reporting and Internal Control Criteria
(Listed Alphabetically by Criteria Source)

Criteria	Reference	Report Exhibit
CBP 2013 Drawback Handbook, (HB 3700-01B)	Section 5.2	I-C, II-E
CBP Collection and Deposits Handbook (HB 5300-12B)	Section 7.3	I-C, II-E
CBP Directive 3710-004B, <i>Refund of Miscellaneous Collections</i>	Section 2.2 Section 5.71	I-C, II-E
CBP Directive 5610-004B, <i>Resolving Certain ACS Exception and Error Reports</i>	Section 5.4 Section 5.6 Section 5.11	I-C, II-E
CBP Seized Asset Management and Enforcement Procedures Handbook (SAMEPH)	Chapter 17	I-B
CBP Standard Operating Procedure (SOP), SF 132/133 Reconciliation	Section 5	I-B
Code of Federal Regulations, Title 19	§111.23, §111.25, §113.15, §113.26, §113.65, §163.4, §191.15, §191.38, §191.51, §191.92	I-C
	§113.13	I-C, II-E
<i>Component Requirements Guide for Financial Reporting in FY 2016</i> , Version 4.0, March 2016	Section 3.6 Section 8.12 Section 9.4 Section 9.5	I-B
<i>DHS Sensitive Systems Policy Directive 4300A</i> , Version 12.0, February 2016	Section 2.1.6.d Section 4.1.3.a Section 4.1.4.a-b Section 4.1.6.a,d Section 4.8.4.f Section 5.2.a Section 5.3.b,h	I-A
Executive Order 13659, <i>Streamlining the Export/Import Process for America's Business</i>	Section III	II-E

Criteria.1

Independent Auditors' Report
Index of Financial Reporting and Internal Control Criteria
(Listed Alphabetically by Criteria Source)

Criteria	Reference	Report Exhibit
Federal Accounting Standards Board (FASAB) Technical Release No. 4, <i>Reporting on Non-Valued Seized and Forfeited Property</i>	Background	I-B
<i>Federal Managers' Financial Integrity Act of 1982</i>	Section 2	I-C
<i>GAO Standards for Internal Control in the Federal Government</i>	Principle 10.12 Principle 11.11 Principle 11.12 Principle 11.13 Principle 11.14	I-A
	Principle 10.02 Principle 10.03 Principle 11.03 Principle 12.05	I-B, I-C, II-E
	Foreword OV2.01 Control Environment Overview Control Activities Overview	II-D
National Institute of Standards and Technology (NIST) Special Publication 800-53, <i>Security and Privacy Controls for Federal Information Systems and Organizations</i> , Revision 4, April 2013	AC-2.e-j AC-5.a-c AC-6 AU-2.d AU-6.a CM-5 RA-5.c-d PS-4.a-b PS-5.c	I-A
OMB Circular No. A-11, <i>Preparation, Submission, and Execution of the Budget</i> , July 2013	Section 130	I-B
Public Law 114-125, <i>Trade Facilitation and Trade Enforcement Act of 2015</i>	Section 912	II-E
Statement of Federal Financial Accounting Standards No. 6, <i>Accounting for Property, Plant, and Equipment</i>	Paragraph 34	I-B

Criteria.2

Independent Auditors' Report
Index of Financial Reporting and Internal Control Criteria
(Listed Alphabetically by Criteria Source)

Criteria	Reference	Report Exhibit
Statement of Federal Financial Accounting Standards No. 7, <i>Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting</i>	Paragraph 53	I-B, II-E
Statement of Federal Financial Accounting Standards No. 13, <i>Accounting for Leases</i>	15	I-B

Criteria.3



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix A

Management's Comments to the Draft Report

1300 Pennsylvania Avenue NW
Washington, DC 20229



**U.S. Customs and
Border Protection**

MEMORANDUM FOR: John V. Kelly
Deputy Inspector General
U.S. Department of Homeland Security

FROM: Jaye M. Williams
Chief Financial Officer

SUBJECT: Management's Response to the Independent Auditor's Report on
the U.S. Customs and Border Protection Fiscal Year 2016
Consolidated Financial Statements

On behalf of the U.S. Customs and Border Protection (CBP), I am responding to the Independent Auditor's Report on CBP's Fiscal Year (FY) 2016 Consolidated Financial Statements, which will be included in our FY 2016 Performance and Accountability Report.

I accept the independent public accounting firm's (KPMG LLP), unmodified opinion on CBP's FY 2016 Consolidated Financial Statements, which concluded that CBP's consolidated financial statements are fairly presented in all material respects in conformity with generally accepted accounting principles.

CBP concurs with the three material weaknesses and the two significant deficiencies reported in the IAR. The material weaknesses were found in the areas of information technology controls and financial systems functionality; financial reporting; and refunds and drawbacks of duties, taxes and fees. The significant deficiencies were in the areas of internal control in entity-level controls and custodial revenue-entry process. Mission Action Plans outlining CBP's strategy to correct these conditions have been provided to the U.S. Department of Homeland Security, Office of Financial Management. CBP will aggressively work to resolve all the deficiencies identified during the audit.

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) 344-2364 or via email at Jaye.M.Williams@cbp.dhs.gov, or Martin N. Finkelstein, Executive Director, Financial Operations Directorate, at (202) 344-1628 or via email at marty.n.finkelstein@cbp.dhs.gov.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B
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Department of Homeland Security

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Washington, DC 20528-0305

Other Information



This section contains CBP's Combined Schedule of Spending, Statement of Financial Statement Audit and Management Assurances, and the Improper Payments Information Act of 2002.

**U.S. Customs and Border Protection
Other Information
(Unaudited)**

Combined Schedule of Spending
For the Years Ended September 30, 2016 and 2015
(in Thousands)

	2016	2015
What Money is Available to Spend?		
Total Resources	\$19,319,249	\$19,474,080
Less: Amount Available but Not Agreed to be Spent	960,578	928,257
Less: Amount Not Available to be Spent	577,551	800,257
Total Amounts Agreed to be Spent	\$17,781,120	\$17,745,566
How was the Money Spent/Issued?		
<i>Salaries & Expenses</i>		
Personnel Compensation and Benefits	\$ 8,928,660	\$ 8,597,781
Contractual Services and Supplies	2,027,097	1,890,666
Acquisition of Assets	282,954	247,517
Refunds	192,255	4,035
Other	424	604
	<u>11,431,390</u>	<u>10,740,603</u>
<i>Automation Modernization</i>		
Personnel Compensation and Benefits	186,173	161,180
Contractual Services and Supplies	451,931	478,979
Acquisition of Assets	269,604	275,771
	<u>907,708</u>	<u>915,930</u>
<i>Construction</i>		
Personnel Compensation and Benefits	45,210	43,625
Contractual Services and Supplies	237,991	187,860
Acquisition of Assets	150,701	88,715
	<u>433,902</u>	<u>320,200</u>
<i>BSFIT</i>		
Contractual Services and Supplies	452,886	359,994
Acquisition of Assets	169,269	111,111
	<u>622,155</u>	<u>471,105</u>
<i>Air & Marine</i>		
Personnel Compensation and Benefits	285,118	278,839
Contractual Services and Supplies	479,324	463,051
Acquisition of Assets	101,357	81,105
Other	12	27
	<u>865,811</u>	<u>823,022</u>
<i>Other</i>		
Personnel Compensation and Benefits	1,421,036	1,343,757
Contractual Services and Supplies	216,185	168,872
Acquisition of Assets	27,892	23,067
Refunds	1,855,041	2,939,010
	<u>3,520,154</u>	<u>4,474,706</u>
Total Amounts Agreed to be Spent	\$17,781,120	\$17,745,566

**U.S. Customs and Border Protection
Other Information
(Unaudited)**

Who did the Money go to?	2016	2015
Federal	\$ 6,143,848	\$ 5,659,095
Non-Federal	11,637,272	12,086,471
Total Amounts Agreed to be Spent	\$17,781,120	\$17,745,566

Much of what is reported on this schedule, primarily personnel expenses and payments to other federal agencies, is excluded from the USASpending.gov reporting. USASpending.gov reports primarily payments made on commercial contracts.

Revenue Gap

The Entry Summary of Trade Compliance Measurement (TCM) program collects objective statistical data to estimate 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 statistical sample of the revenue losses and overpayments detected during TCM entry summary reviews conducted throughout the year.

	FY 2016 (Preliminary)	FY 2015 (Final)
Estimated Revenue Gap	\$396.5 mil	\$970.6 mil
Estimated Revenue Gap of all collectable revenue for year (%)	0.88 %	2.07 %
Estimated Over-Collection	\$66.2 mil	\$48.4 mil
Estimated Under-Collection	\$462.7 mil	\$1,019.0 mil
Estimated Overall Trade Compliance Rate (%)	99.2 %	98.8 %

The preliminary overall compliance rate for FY 2016 is 99.2 percent. The final overall trade compliance rate and estimated revenue gap for FY 2016 will be issued in February 2017.

**U.S. Customs and Border Protection
Other Information
(Unaudited)**

Petitioned and Protested Schedule

An analysis of the changes in petitioned and protested assessed amounts during FY 2016 and 2015 is as follows (in thousands):

	2016					
	Balance October 1	Additional Assessments	Protest in Favor of Debtor	Net Reduction Administrative Process	Additional Receivable	Balance September 30
Duties	\$ 403,446	\$ 166,441	\$ (28,653)	\$ (110,859)	\$ --	\$ 430,375
Taxes	517	1,600	(3)	(1,791)	--	323
Fees	782	1,748	(18)	(1,612)	--	900
Fines/Penalties	1,447,208	1,536,334	(243,485)	(15)	(162,601)	2,577,441
Interest	125,346	39,771	(9,904)	(15,548)	--	139,665
Antidumping/ Countervailing Duties	164,946	6,408	(20,280)	(9,730)	--	141,344
Refunds & Drawbacks	4,202	6,821	(220)	(3,909)	--	6,894
Total	<u>\$2,146,447</u>	<u>\$ 1,759,123</u>	<u>\$(302,563)</u>	<u>\$(143,464)</u>	<u>\$(162,601)</u>	<u>\$3,296,942</u>

	2015					
	Balance October 1	Additional Assessments	Protest in Favor of Debtor	Net Reduction Administrative Process	Additional Receivable	Balance September 30
Duties	\$ 349,441	\$ (4,256)	\$(139,818)	\$ 198,079	\$ --	\$ 403,446
Taxes	662	245	(36)	(354)	--	517
Fees	937	1,180	(91)	(1,244)	--	782
Fines/Penalties	1,726,424	560,847	(274,371)	(200)	(565,492)	1,447,208
Interest	212,198	19,005	(81,088)	(24,769)	--	125,346
Antidumping/ Countervailing Duties	486,979	8,337	(67)	(330,303)	--	164,946
Refunds & Drawbacks	5,731	5,542	--	(7,071)	--	4,202
Total	<u>\$2,782,372</u>	<u>\$ 590,900</u>	<u>\$(495,471)</u>	<u>\$(165,862)</u>	<u>\$(565,492)</u>	<u>\$2,146,447</u>

**U.S. Customs and Border Protection
Other Information
(Unaudited)**

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 180 days (or 90 days for entries before December 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, 2016 and 2015 is as follows (in thousands):

2016	Aged Period					Total
	<=90 days	91 days-1 year	1-2 years	2-3 years	3+ years	
Reimbursable Services	\$ 2,134	\$73,247	\$1,613	\$ --	\$ 736	\$ 77,730
User Fees	420,724	2,019	707	964	11,302	435,716
Gross Receivables	422,858	75,266	2,320	964	12,038	513,446
Less: Uncollectible Amounts	--	8	590	957	11,185	12,740
Net Receivables	\$422,858	\$75,258	\$1,730	\$ 7	\$ 853	\$500,706

2015	Aged Period					Total
	<=90 days	91 days-1 year	1-2 years	2-3 years	3+ years	
Reimbursable Services	\$ 878	\$ --	\$ --	\$ --	\$ --	\$ 878
User Fees	381,352	16,872	840	3,368	8,320	410,752
Gross Receivables	382,230	16,872	840	3,368	8,320	411,630
Less: Uncollectible Amounts	--	60	710	2,587	8,294	11,651
Net Receivables	\$382,230	\$16,812	\$ 130	\$ 781	\$ 26	\$399,979

**U.S. Customs and Border Protection
Other Information
(Unaudited)**

Taxes, Duties and Trade Receivables, Net

An analysis of the changes in Taxes, Duties, and Trade Receivables during FY 2016 and 2015 is as follows (in thousands):

2016						
Receivable Category	Balance October 1	Receivables Recorded During the Fiscal Year	Collections	Write-offs	Adjustments	Balance September 30
Duties	\$2,651,597	\$21,171,441	\$(19,053,974)	\$ (398)	\$(2,149,606)	\$2,619,060
Excise Taxes	163,540	1,122,212	(1,002,874)	--	(85,285)	197,593
Fees	71,203	2,241,639	(2,247,642)	--	10,394	75,594
Fines/Penalties	488,130	953,091	(53,708)	(38,131)	(805,041)	544,341
Interest	802,602	140,906	(8,803)	(18)	(100,405)	834,282
Antidumping/ Countervailing Duties	1,961,033	1,276,006	(959,801)	(2)	(311,936)	1,965,300
Refunds/Drawbacks	72,075	330	(200)	--	(950)	71,255
Total	6,210,180	\$26,905,625	\$(23,327,002)	\$(38,549)	\$(3,442,829)	6,307,425
Less: Uncollectible Amounts	2,965,230					3,265,533
Net Receivables	\$3,244,950					\$3,041,892
2015						
Receivable Category	Balance October 1	Receivables Recorded During the Fiscal Year	Collections	Write-offs	Adjustments	Balance September 30
Duties	\$2,750,220	\$19,605,796	\$(17,684,110)	\$ (798)	\$(2,019,511)	\$2,651,597
Excise Taxes	168,201	952,231	(876,287)	--	(80,605)	163,540
Fees	71,862	1,904,567	(1,925,156)	--	19,930	71,203
Fines/Penalties	509,547	921,546	(46,714)	(36,330)	(859,919)	488,130
Interest	668,525	161,410	(3,657)	(4)	(23,672)	802,602
Antidumping/ Countervailing Duties	1,406,494	1,208,786	(673,926)	--	19,679	1,961,033
Refunds/Drawbacks	2,374	75,444	(3,065)	--	(2,678)	72,075
Total	5,577,223	\$24,829,780	\$(21,212,915)	\$(37,132)	\$(2,946,776)	6,210,180
Less: Uncollectible Amounts	2,527,833					2,965,230
Net Receivables	\$3,049,390					\$3,244,950

**U.S. Customs and Border Protection
Other Information
(Unaudited)**

An aging of Taxes, Duties, and Trade Receivables as of September 30, 2016 and 2015 is as follows (in thousands):

2016	Aged Period					Total
	<=90 days	91 days–1 year	1-2 years	2-3 years	3+ years	
Duties	\$2,433,496	\$ 12,974	\$ 51,452	\$ 10,673	\$ 110,465	\$2,619,060
Excise Taxes	189,409	11	1	57	8,115	197,593
User Fees	75,131	8	20	71	364	75,594
Fines/Penalties	88,688	94,065	75,219	57,611	228,758	544,341
Interest	12	14,157	46,791	77,765	695,557	834,282
Antidumping/ Countervailing Duties	106,997	113,001	234,657	327,247	1,183,398	1,965,300
Refunds and Drawbacks	--	64	69,812	1	1,378	71,255
Gross Receivables	2,893,733	234,280	477,952	473,425	2,228,035	6,307,425
Less: Uncollectible Amounts	81,296	208,302	355,171	454,162	2,166,602	3,265,533
Net Receivables	\$2,812,437	\$ 25,978	\$ 122,781	\$ 19,263	\$ 61,433	\$3,041,892

2015	Aged Period					Total
	<=90 days	91 days–1 year	1-2 years	2-3 years	3+ years	
Duties	\$2,470,293	\$ 51,784	\$ 10,346	\$ 8,109	\$ 111,065	\$2,651,597
Excise Taxes	153,322	64	497	850	8,807	163,540
User Fees	70,637	2	8	164	392	71,203
Fines/Penalties	63,131	81,605	89,806	33,589	219,999	488,130
Interest	34	31,862	70,563	48,356	651,787	802,602
Antidumping/ Countervailing Duties	140,500	126,102	372,805	226,968	1,094,658	1,961,033
Refunds and Drawbacks	69,811	1	2	100	2,161	72,075
Gross Receivables	2,967,728	291,420	544,027	318,136	2,088,869	6,210,180
Less: Uncollectible Amounts	58,046	211,520	445,696	259,426	1,990,542	2,965,230
Net Receivables	\$2,909,682	\$ 79,900	\$ 98,331	\$ 58,710	\$ 98,327	\$3,244,950

**U.S. Customs and Border Protection
Other Information
(Unaudited)**

CBP Collections by Major Processing Port Locations

(in thousands)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Boston	\$ 363,497	\$ 364,986	\$ 368,708	\$ 367,471	\$ 394,825
Buffalo-Niagara Falls	317,012	322,727	329,602	347,271	368,682
Ogdensburg	147,013	143,957	148,037	162,459	265,459
Portland, Maine	62,517	55,223	59,328	62,808	67,416
Providence	126,627	146,914	147,430	159,977	160,037
St. Albans	50,206	51,063	55,956	56,339	60,707
Baltimore	654,950	701,463	797,220	820,764	830,143
Philadelphia	461,559	511,088	529,195	573,495	489,501
Newark	5,219,277	5,113,482	5,452,541	6,198,772	5,725,797
JFK Airport	981,040	1,056,601	1,096,558	1,117,372	1,110,809
Charleston	1,184,188	1,123,350	1,183,438	1,288,602	1,223,764
Miami	803,266	836,692	916,642	1,002,380	1,019,248
San Juan	125,899	279,092	198,743	109,879	108,497
St. Thomas	12,550	12,110	12,007	11,526	11,859
Savannah	2,047,913	2,073,771	2,548,813	3,226,361	2,713,390
Tampa	492,541	488,510	474,920	536,055	570,364
Wilmington	266,326	280,096	277,479	291,422	291,596
Norfolk	736,196	808,177	913,193	1,131,183	1,082,355
NFC Indianapolis/Washington	1,870,288	2,328,877	2,347,853	2,168,287	2,457,702
Mobile	185,049	204,101	184,221	196,302	221,699
New Orleans	1,303,706	1,351,597	1,536,368	1,367,858	1,302,819
Dallas/Ft Worth	574,583	625,293	667,102	680,159	645,003
El Paso	152,491	200,830	217,850	219,864	196,245
Houston	1,116,282	1,121,159	1,312,861	1,478,210	1,143,195
Laredo	656,435	674,221	779,703	802,953	885,617
Port Arthur	20,869	17,125	19,053	16,116	20,815
Nogales	94,566	110,129	131,433	134,563	120,801
Los Angeles	10,268,894	10,858,809	11,039,327	11,243,691	11,505,575
San Diego	252,688	268,872	320,284	360,524	320,893
Anchorage	118,389	94,208	80,073	105,960	103,814
Honolulu	37,192	36,037	35,748	36,924	45,305
Portland	365,043	338,674	340,501	332,563	311,748
San Francisco	1,405,650	1,449,926	1,506,267	1,471,681	1,498,502
Seattle	1,354,234	1,300,806	1,261,971	1,433,480	1,416,411
Chicago	2,009,737	2,013,849	2,169,167	2,283,257	2,123,296
Cleveland	1,810,848	1,938,792	2,150,736	2,169,244	2,084,611
Detroit	677,489	696,579	749,017	777,181	812,393
Milwaukee	31,130	23,548	38,893	43,376	33,002
Minneapolis	265,195	262,182	262,412	281,378	278,343
Pembina	31,373	36,254	44,855	35,695	31,774
St. Louis	426,942	486,737	540,986	545,974	531,896
Great Falls	179,291	177,500	186,163	208,302	215,408
Total Revenues Collected	<u>\$39,260,941</u>	<u>\$40,985,407</u>	<u>\$43,432,654</u>	<u>\$45,857,678</u>	<u>\$44,801,316</u>

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

**U.S. Customs and Border Protection
Other Information
(Unaudited)**

Summary of Financial Statement Audit and Management Assurances

The table below provides a summary of the financial statement audit results and management assurances for FY 2016.

FY 2016 Summary of the Financial Statement Audit

Audit Opinion	UNMODIFIED				
Restatement	No				
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Drawback Payments	1	--	--	--	1
Information Technology Controls and Financial Systems Functionality	1		--	--	1
Financial Reporting		1			1
Total Material Weaknesses	2	1	--	--	3

In FY 2016, the Independent Auditors' Report continues to identify one long-standing material weakness associated with drawback payments. Drawback is a remittance, in whole or in part, of duties, taxes, or fees previously paid by an importer. Drawback 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. Legislation passed in FY 2016 and the planned system enhancements needed to implement the legislative changes are expected to fully remediate these issues by February 2019, which is the deadline for all drawback claims to follow the newly enacted provisions. The Trade Enforcement and Trade Facilitation Act (TFTEA) of 2015, signed into law on February 24, 2016, provides significant enhancements to the drawback laws under 19 USC 1313. Planned Automated Commercial Environment (ACE) deployments will further operationalize the provisions in the TFTEA and help CBP address longstanding weaknesses related to drawback payments while streamlining drawback processes for both CBP and the Trade and revising document retention requirements. Until the legislative changes and system improvements are realized, CBP expects Drawback controls to remain a reportable condition. CBP will continue executing an enhanced drawback compliance measurement program launched in May 2016, which emphasizes data integrity, accuracy, and timeliness to improve the validity of risk-based decisions, to mitigate the risk of excessive drawback claim payments.

The Independent Auditors' Report also identified a material weakness associated with information technology (IT) controls and process-level IT application controls. During the FY 2016 assessment, the Independent Auditor noted that although some progress in remediating IT findings was reported, new findings were noted in FY 2016. Issues cited in CBP financial systems included weaknesses in access and separation of duties processes, application and account inactivity parameters, application production client settings, and audit logging and monitoring. CBP's remediation strategy includes IT control assessments and implementation of a sustainable and reliable IT control program to reduce vulnerabilities within and resulting from CBP's financial systems.

New in FY 2016, the Independent Auditors' Report identified a material weakness with financial reporting. The Independent Auditor noted that in some cases CBP did not properly identify the controls needed to mitigate the risks related to the yearend financial reporting process, and in other cases, CBP personnel did not follow the existing policies or procedures related to financial reporting. The Independent Auditor's report stated that despite these control deficiencies, CBP was able to adequately support its FY 2016 account balances. Remediation efforts will include improving internal controls around yearend cutoff procedures and subsequent event analysis as well as reinforcing existing review procedures. In addition, CBP will attract and deploy additional skilled resources and align them to financial reporting.

**U.S. Customs and Border Protection
Other Information
(Unaudited)**

Improper Payments Information Act of 2002 (IPIA)

The Improper Payments Information Act (IPIA) of 2002 was amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).

CBP identified and performed a risk assessment on all ten programs, two of which, Custodial Refunds and Drawbacks and Salaries and Expenses – Payroll - Administrative Uncontrollable Overtime (AUO), were identified as high risk. Federal law requires Hurricane Sandy Supplemental spending to be considered high risk as defined by IPERIA, however, CBP did not have any Hurricane Sandy Supplemental disbursements in FY 2015.

Congress requires funds allocated to agencies under the American Recovery and Reinvestment Act (ARRA) of 2009 be tested regardless of risk assessment outcome. Per OMB guidance, if an agency has documented a minimum of two consecutive years of improper payments that are less than 1.5 percent, the agency may, with the concurrence of the agency's Office of Inspector General (OIG), request relief from the annual reporting requirements for this program or activity. The DHS Chief Financial Officer (CFO) signed a memorandum dated April 11, 2013 approving cessation of segregated testing for future ARRA disbursements due to CBP's consistent low error rate. DHS Risk Management and Assurance (RM&A) Division issued a Memorandum for the Record in FY 2015 to document the continued cessation of ARRA payment testing.

Border Security Fencing (BSF) was deemed low risk according to the FY 2014 risk assessment. However, CBP received stimulus money for BSF projects under ARRA, which requires funds allocated to be tested regardless of the risk assessment outcome. Per OMB guidance mentioned above, CBP submitted a request in May 2014, which included the DHS OIG's concurrence, to obtain OMB's approval to seek relief from continued annual IPERIA testing for BSF, as CBP's total extrapolated error rate was less than 0.01 percent in FY 2011 and FY 2012. Relief from testing was granted by OMB on July 23, 2014. Therefore, no testing was conducted for BSF for FY 2015 payments.

The Custodial Refund and Drawback payment testing yielded an estimated improper payment amount of \$10.52 million of the \$3.0 billion, or 0.35 percent, that was disbursed in FY 2015. Salaries and Expense Payroll-AUO payment testing yielded an estimated improper payment amount of \$14.5 thousand, or 0.25 percent, of the \$173 million test population disbursed during FY 2015.

Overpayments Recaptured Outside of Payment Recapture Audits (\$ in Thousands)

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 High-Risk Program Testing	\$15.8	--	\$27.1	\$5.8	\$42.9	\$5.8
Self-Reporting	--	--	\$945.8	\$945.8	\$945.8	\$945.8
Public Reporting	\$181	\$181	\$2,160	\$2,160	\$2,341	\$2,341

Disposition of Recaptured Funds

Program or Activity	Type of Payment (contract, grant, benefit, loan 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	--	--	--	--	--	--

**U.S. Customs and Border Protection
Other Information
(Unaudited)**

Payment Recapture Audit Targets

Program or Activity	Type of Payment (contract, grant, benefit, loan 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	--	--	--	--	--	--

Aging of Outstanding Overpayments

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

CBP also identified amounts for recovery during the Improper Payment Information Act (IPIA) review of FY 2015 disbursements. The IPIA results are as follows (dollars in thousands):

	Amounts Identified as Improper Payments	Amounts Identified for Recovery	Amounts Recovered
Refunds and Drawbacks	\$1.22	--	--
Administrative Uncontrollable Overtime (AUO)	\$14.56	--	--
Total	\$15.78	--	--

Recoveries for Custodial Refund and Drawback Program payments are restricted by regulations governing collections of duty, taxes, and fees associated with trade-related activity. OMB granted relief from testing BSF on July 23, 2014 due to three years of improper payment testing yielding low error rates and proving effectiveness of payment internal controls.

Improper Payment Reduction Outlook (\$ in millions)						
Source of Recovery	Amount Identified (CY)	Amount Recovered (CY)	Amount Identified (PYs)	Amount Recovered (PYs)	Cumulative Amount Identified (CY+PYs)	Cumulative Amount Recovered (CY+PYs)
High-Dollar & Other Overpayment Reporting	\$0.2	\$0.2	\$3.0	\$3.0	\$3.2	\$3.2
IPIA High-Risk Program Testing	--	--	\$0.1	\$0.1	\$0.1	\$0.1
Post Payment Reviews	--	--	\$0.4	\$0.4	\$0.4	\$0.4
CBP Totals	\$0.2	\$0.2	\$3.5	\$3.5	\$3.7	\$3.7

**U.S. Customs and Border Protection
Other Information
(Unaudited)**

Do Not Pay Initiative to Prevent Improper Payments

	Number of Payments Reviewed for Improper Payments	Dollars of Payments Reviewed for Improper Payments	Number of Payments Stopped	Dollars of Payments Stopped	Number of Potential Improper Payments Reviewed and Determined Accurate	Dollars of Potential Improper Payments Reviewed and Determined Accurate
Review with the IPERIA Databases	704,602	\$4,872,652,400	--	--	117	\$3,474,640
Reviews with databases not listed in IPERIA	--	--	--	--	--	--

Footnote: SAP, ACS, ACE

Payment Recapture Audit Reporting

CBP contracted the audit recovery work for disbursements made during FY 2015. 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 (\$ in millions)	Actual Amount Reviewed and Reported CY	Amounts Identified for Recovery CY	Amounts Recovered CY	% 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
CBP Mission	Contract	**N/A	**N/A	--	--	--	--	--	--

Program or Activity	Type of Payment (contract, grant, benefit, loan, or other)	% of Amount Determined Not to be Collectable out of Amount Identified CY	Amounts Identified for Recovery PY's (\$000)	Amounts Recovered PYs (\$000)	Cumulative Amounts Identified for Recovery (CY + PYs) (\$000)	Cumulative Amounts Recovered (CY + PYs) (\$000)	Cumulative Amounts Outstanding (CY+PY)	Cumulative Amounts Determined Not to be Collectable (CY+PY)
CBP Mission	Contract	--	--	--	\$362,294	\$362,294	--	--

**CBP contracted the recovery audit work for disbursements made during FY 2014. In July 2015 the contractor notified CBP they could no longer perform the recovery audit as it was not cost effective due to the low recovery rate. CBP submitted a waiver request to DHS RM&A for relief of performing recovery audit on FY2015 disbursements. The waiver was granted on July 27, 2015.

**U.S. Customs and Border Protection
Other Information
(Unaudited)**

Improper Payment Reduction Outlook

(In millions)	2014	2014	2014	2015	2015	2015	2015	2015	2016	2016
Program	PY Outlays	PY %	PY \$	CY Outlays	CY IP %	CY IP \$	CY Over-payment \$	CY Under-payment \$	CY + 1 Est. Outlays	CY + 1 IP %
Refunds & Drawbacks	\$1,591	.24%	\$3.9	\$3,009	.35%	\$10.52	\$10.51	\$0.007	\$2,024.33	.24%
Border Security Fencing	Testing Waived	--	--	Testing Waived	--	--	--	--	\$186	--
Administrative Uncontrollable Overtime (AUO)	\$338	.25%	\$.84	\$173	.01%	\$.01	--	--	\$10	.20%
Hurricane Sandy Disaster Relief Funds (HSDR)	\$.47	--	--	N/A	--	--	--	--	N/A	--

(In millions)	2016	2017	2017	2017	2018	2018	2018
Program	CY + 1 IP \$	CY + 2 Est. Outlays	CY + 2 IP %	CY + 2 IP \$	CY + 3 Est. Outlays	CY + 3 IP %	CY + 3 IP \$
Refunds & Drawbacks	\$4.86	\$2,024.33	.24%	\$4.86	\$2,024.33	.08%	\$1.4
Border Security Fencing	--	\$186	--	--	\$186	--	--
Administrative Uncontrollable Overtime (AUO)	\$.02	\$10	.20%	\$.02	\$10	.20%	\$.02
Hurricane Sandy Disaster Relief Funds (HSDR)	--	N/A	--	--	N/A	--	--

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

**U.S. Customs and Border Protection
Other Information
(Unaudited)**

Freeze the Footprint

In May 2012 OMB issued Memorandum-12-12, *Promoting Efficient Spending to Support Agency Operations*, in response to Executive Order 13589, "*Promoting Efficient Spending*". In that Executive Order, signed by the President on November 9, 2011, the President directed each agency to reduce its combined costs in a variety of administrative categories from FY 2010 levels. Memorandum-12-12 addressed several of these categories, and included Section 3, *Real Property*, which states that agencies generally shall not increase the size of their domestic real estate inventory. Memorandum No. 2013-02, *Implementation of OMB Memorandum M-12-12 Section 3: Freeze the Footprint*, clarified the "Freeze the Footprint" (FtF) policy by stating that an agency's total square footage for office and warehouse space shall remain at its FY 2012 baseline level.

CBP, through its annual capital facilities investment plans and rent requirements control board, has put steps in place to reduce its office and warehouse footprint where it is controllable. Mobile Work Phases I and II have been successfully implemented in the National Capital Region and Phase III is being kicked off in Indianapolis. Through consolidation, co-location, and mobile work initiatives, CBP will continue to decrease nonoperational type office and warehouse space by 9 percent by FY 2020. CBP's operation and maintenance costs for FtF properties are estimated as CBP's accounting system doesn't provide cost detail by property.

Freeze the Footprint Baseline Comparison			
Square Footage (SF in millions)	FY 2012 Baseline	FY 2015 Actual	Decrease
	11.762	11.620	0.142
Operation and Maintenance Costs – Owned and Direct Lease Buildings			
Operation and Maintenance Costs (\$ in millions)	FY 2012 Estimated Costs	FY 2015 Estimated Costs	Decrease
	\$3.776	\$3.776	\$ --

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Acronyms

ACRONYM	DEFINITION
ACE	Automated Commercial Environment
ACS	Automated Commercial System
ACTT	Alliance to Combat Transnational Threats
ADA	Antideficiency Act
ADIS	Arrival and Departure Information System
AEO	Authorized Economic Operator
AES	Automated Export System
AFI	Analytical Framework for Intelligence
AFR	Agency Financial Report
ALM	Active Lane Management
AIS	Automatic Identification System
AMO	Air and Marine Operations
AMOC	Air and Marine Operations Center
AMOSS	Air and Marine Operations Surveillance System
APC	Automated Passport Control
APHIS	Animal and Plant Health Inspection Service
APIS	Advance Passenger Information System
APL	Applied Physics Laboratory
AUO	Administratively Uncontrollable Overtime
ARO	Admissibility Review Office
AST	Automated Scheduling Tool
ATS	Automated Targeting System
ATS-AT	Automated Targeting System-Anti-Terrorism
ATS-G	Automated Targeting System-Global
ATS-L	Automated Targeting System-Land
ATS-N	Automated Targeting System-Inbound
ATS-P	Automated Targeting System-Passenger
ATS-TF	Automated Targeting System-Targeting Framework
AUFRS	Assault and Use of Force Reporting System
BORSTAR	Border Patrol Search, Trauma, and Rescue
BORTAC	Border Patrol Tactical Unit
BPAPRA	Border Patrol Agent Pay Reform Act
BSDP	Border Security Deployment Program
BSFIT	Border Security Fencing Infrastructure and Technology
BSI	Border Safety Initiative

ACRONYM	DEFINITION
C3	California Corridor Campaign
C3E	CBP Cloud Computing Environment
CAL	Component Audit Liaison
CARICOM	Caribbean Community
CBP	U.S. Customs and Border Protection
CBPO	CBP Officer
CBRN	Chemical, Biological, Radiological, or Nuclear
CBSA	Canadian Border Services Agency
CCD	Coherent Change Detection
CCUC	California Corridor Unified Command
CDC	Centers for Disease Control and Prevention
CDS	Consequence Delivery System
CEE	Centers of Excellence and Expertise
CFO	Chief Financial Officer
CIO	Chief Information Officer
CIV	Coastal Interceptor Vessels
CMAA	Customs Mutual Assistance Agreement
C-MAST	CBP Modeling and Simulation Tool
COAC	Commercial Customs Operations Advisory Committee
COBRA	Consolidated Omnibus Budget Reconciliation
COS	Chief of Staff
COSS	CBP Overtime Scheduling System
COTS	Commercial Off-The-Shelf
CPSC	Consumer Product Safety Commission
CSA	Canada Self-Assessment
CSI	Container Security Initiative
CSOC	CBP Cyber Security Operations Center
CTAC	Commercial Targeting and Analysis Center
CTI	CBP Overtime Scheduling System Transformation Initiative
CTO	Cargo Targeting Operations
C-TPAT	Customs-Trade Partnership Against Terrorism
DAU	Defense Acquisition University
DEA	U.S. Drug Enforcement Administration
DHS	Department of Homeland Security
DIS	Digital Imaging System

ACRONYM	DEFINITION
DNDO	Domestic Nuclear Detection Office
DoD	Department of Defense
DOJ	Department of Justice
DOS	U.S. Department of State
ECoE	Engagement Center of Excellence
ELMO	Enforcement Link Mobile Operations
EPA	Environmental Protection Agency
ERO	Enforcement and Removal Operations
ERP	Enterprise Resource Planning
ES	Enterprise Services
ESTA	Electronic System for Travel Authorization
ETD	Electronic Tracking Device
EU	European Union
EXT	Entry/Exit Transformation Office
FAA	Federal Aviation Administration
FAMU	Family Units
FASAB	Federal Accounting Standards Advisory Board
FAST	Free and Secure Trade
FBI	Federal Bureau of Investigation
FDA	Food and Drug Administration
FDAU	Fraudulent Document Analysis Unit
FEA	Federal Electronic Assets
FECA	Federal Employees' Compensation Act
FedRAMP	Federal Risk and Authorization Management Program
FEMA	Federal Emergency Management Agency
FERS	Federal Employees' Retirement System
FEVS	Federal Employee Viewpoint Survey
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Management Act of 2002
FLIR	Forward Looking Infrared Radiometer
FLSA	Fair Labor Standards Act
FM&E	Facilities Management and Engineering
FMFIA	Federal Managers' Financial Integrity Act
FOIA	Freedom of Information Act
FOUO	For Official Use Only
FSIS	Food Safety Inspection Service
FSU	Field Support Unit

ACRONYM	DEFINITION
FTIR	Field Triage Infrared Reachback
FTZ	Foreign Trade Zone
FY	Fiscal Year
FYHSP	Future Years Homeland Security Program
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GdF	Guardia di Finanza
GEOINT	Geospatial Intelligence
GMTI	Ground Moving Target Indicator
GOES	Global Online Enrollment System
GPRA	Government Performance and Program Results Act
GPRAMA	Government Performance and Results Modernization Act
GSA	General Services Administration
GTAD	Global Targeting Advisory Division
HHS	Department of Health and Human Services
HQ	Headquarters
HRBE	Human Resources Business Engine
HRM	Human Resources Management
HSI	Homeland Security Investigations
HSPD	Homeland Security Presidential Directive
HtW	Home-to-Work
I&A	Office of Intelligence and Analysis
IAP	Immigration Advisory Program
IBET	Integrated Border Enforcement Teams
ICAM	Identity, Credentialing, and Access Management
ICE	U.S. Immigration and Customs Enforcement
ICS	International Container Security
IDENT	Automated Biometric Identification System
IER	Interdiction Effectiveness Rate
IICC	Information and Incident Coordination Center
ILEA	International Law Enforcement Academies
ILSS	Integrated Logistics Support System
ILU	International Liaison Unit
IMCC	Intermodal Cargo Container
INA	Office of International Affairs
INTERPOL	International Criminal Police Organization
IPL	Office of Intergovernmental Public Liaison

ACRONYM	DEFINITION
IPP	Treasury Invoice Processing Platform
IPR	Intellectual Property Rights
IPSD	Integrity and Professionalism Standards Division
ISA	Importer Self-Assessment
IT	Information Technology
ITB	Interdiction Technology Branch
ITC	International Targeting Center
ITDS	International Trade Data System
ITTN	Integrated Trade Targeting Network
IUF	Immigration User Fees
IUFA	Immigration User Fees Accounts
IVP	International Visitors Program
IWS	Interoperability Web Service
JFC	Joint Field Command
JHU	Johns Hopkins University
JIATF	Joint Interagency Task Force
JICMS	Joint Integrity Case Management System
JRCC	Joint Regional Communications Centre
JRIMS	Joint Requirements Integration and Management System
JSP	Joint Security Program
JTF-W	Joint Task Force-West
K9	Canine Enforcement
K9TS	Canine Tracking System
LE	Law Enforcement
LED	Light-Emitting Diode
LESC	Law Enforcement Safety and Compliance Directorate
LPO	Local Property Officer
LPOE	Land Port of Entry
LRT	Long Range Tracker
LSS	Laboratories and Scientific Services
LSSD	Laboratories and Scientific Services Directorate
M&S	Modeling and Simulation
MID	Management Inspections Division
MIPET	Mobile Intellectual Property Rights Enforcement Team
MMMS	Minotaur Mission Management System
MOU	Memorandum of Understanding
MPC	Mobile Passport Control

ACRONYM	DEFINITION
MRA	Mutual Recognition Arrangement
MSRP	Manufacturer's Suggested Retail Price
NAAP	National Audit Plan
NARP	National Agriculture Release Program
NAVAIR	Naval Air Systems Command
NBGIS	National Border Geospatial Intelligence Strategy
NCTC	National Counterterrorism Center
NEXUS	Northern Exchange with United States / Northern Border Crossing System
NFL	National Football League
NHTSA	National Highway Traffic Safety Administration
NII	Non-Intrusive Inspection
NIMS	National Incident Management System
NRF	National Response Framework
NTC	National Targeting Center
NTC-C	National Targeting Center - Cargo
NTC-CND	National Targeting Center - Counter Network Division
NTC-CTD	National Targeting Center - Counter Terrorism Division
NTC-I	National Targeting Center - Investigations Division
NTC-P	National Targeting Center - Passenger
OA	Office of Acquisition
OACT	Office of Accountability
OCA	Office of Congressional Affairs
OCC	Office of Chief Counsel
OF	Office of Finance
OFO	Office of Field Operations
OGA	Other Government Agencies
OI	Office of Intelligence
OIG	Office of Inspector General
OIIL	Office of Intelligence and Investigative Liaison
OIP	Operational Implementation Plan
OIT	Office of Information and Technology
OMB	Office of Management and Budget
ONDCP	Office of National Drug Control Policy
OP	Office of Programming
OPA	Office of Public Affairs
OPM	Office of Personnel Management
OPR	Office of Professional Responsibility

ACRONYM	DEFINITION
OS	Operations Support
OSI	Office of Strategic Integration
OT	Office of Trade
OTD	Office of Training and Development
OTR	Office of Trade Relations
PAR	Performance and Accountability Report
PARE	Planning, Analysis, and Requirements Evaluation
PATRIOT	Pre-Adjudicative Threat Recognition and Intelligence Operations Team
PAU	Passenger Analytical Unit
PDO	Privacy and Diversity Office
PED	Processing, Exploitation, and Dissemination
PMF	Performance Management Framework
PNNL	Pacific Northwest National Laboratory
POE	Port of Entry
PPBA	Planning, Programming, Budgeting, and Accountability
PPMOB	Personal Property Management Oversight Board
PRV	Plant Replacement Value
QHSR	Quadrennial Homeland Security Review
RA	Regulatory Audit
RCMP	Royal Canadian Mounted Police
ReCoM	Regional Coordinating Mechanism
RFID	Radio Frequency Identification
RPM	Radiation Portal Monitor
RTU	Rail Targeting Unit
SAFE	Security and Accountability For Every
SAP	Systems, Applications, and Products
SAR	Synthetic Aperture Radar
SBREFA	Small Business Regulatory Enforcement Fairness Act
SE	Simplified Entry
SEAT	Study Executive Assessment Team
SENTRI	Secure Electronic Network for Traveler Rapid Inspection
SERT	Special Emphasis Recruitment Team
SFFAS	Statement of Federal Financial Accounting Standards
SIMEX	Simulation Experiment
SIP	Self-Inspection Program
SLEP	Service Life Extension Program
SLT	Office of State, Local, and Tribal Liaison
SLTD	Stolen Lost Travel Documents
SOG	Special Operations Group
SOP	Standard Operating Procedures

ACRONYM	DEFINITION
SPSS	Self-Propelled Semi-Submersible
StAMP	Strategic Air and Marine Plan
STC	South Texas Campaign
SWB	Southwest Border
T3U	Tactical Trade Targeting Unit
TACCOM	Tactical Communication Modernization Program
TARS	Tethered Aerostat Radar System
TC	Teleforensic Center
TCO	Transnational Criminal Organization
TD	Travel Documents
TECS	Treasury Enforcement Communications System
TFTEA	Trade Facilitation and Trade Enforcement Act of 2015
TOMIS	Tasking, Operations, and Management Information System
TPVT	Textile Production Verification Team
TraPac	Trans Pacific Container Service Corporation
TSA	Transportation Security Agency
TSC	Terrorist Screening Center
TSO	Trade Special Operations
TTC	Tactical/Technical Command
TTP	Trusted Traveler Program
UAC	Unaccompanied Children
UAS	Unmanned Aircraft System
UCC	Unified Combatant Command
UFAC	User Fee Advisory Committee
UGS	Unattended Ground Sensor
UPAX	Unified Passenger
U.S.	United States
USBP	U.S. Border Patrol
USCG	U.S. Coast Guard
USCIS	United States Citizenship and Immigration Services
US-VISIT	U.S. Visitor and Immigration Status Indicator Technology
VADER	Vehicle and Dismounted Exploitation Radar
VAM	Vehicle Allocation Methodology
VWP	Visa Waiver Program
WCO	World Customs Organization
WMD	Weapon of Mass Destruction
WRO	Withhold Release Order
WSM	Workload Staffing Model
WTO	World Trade Organization



U.S. Customs and Border Protection

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To report suspicious activity, call
1-800-BE ALERT